BLACKSTONE MORTGAGE TRUST, INC.
Form 10-K
February 18, 2014
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2013**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition period from __________ to__________**

**Commission file number 1-14788**

**Blackstone Mortgage Trust, Inc.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Maryland** | **94-6181186** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **345 Park Avenue, 42nd Floor, New York, NY** | **10154** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: (212) 655-0220**

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of Each Class** | **Name of Each Exchange on which registered** |
|---|---|
| **Class A common stock, par value $0.01 per share** | **New York Stock Exchange** |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨ (not required)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the outstanding class A common stock held by non-affiliates of the registrant was approximately $637,303,991 as of June 28, 2013 (the last business day of the registrant s most recently completed second fiscal quarter) based on the closing sale price on the New York Stock Exchange on that date.

As of February 11, 2014, there were 39,276,651 outstanding shares of class A common stock. The class A common stock is listed on the New York Stock Exchange (trading symbol BXMT ).

## DOCUMENTS INCORPORATED BY REFERENCE

Part III of this annual report on Form 10-K incorporates information by reference from the registrant s definitive proxy statement with respect to its 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant s fiscal year.

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## PART I.

### ITEM 1. BUSINESS

References herein to Blackstone Mortgage Trust, company, we, us or our refer to Blackstone Mortgage Trust, Maryland corporation, and its subsidiaries unless the context specifically requires otherwise.

### Our Company

Blackstone Mortgage Trust is a real estate finance company that primarily originates and purchases senior mortgage loans collateralized by properties in the United States and Europe. Our business plan is to create the premier global commercial real estate lending platform and to originate, acquire and manage commercial real estate loans and securities and other commercial real estate-related debt instruments. We are externally managed by BXMT Advisors L.L.C., or our Manager, a subsidiary of The Blackstone Group L.P., or Blackstone, and are a real estate investment trust, or REIT, traded on the New York Stock Exchange, or NYSE, under the symbol BXMT.

We conduct our operations as a REIT for U.S. federal income tax purposes. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. We are organized as a holding company and conduct our business primarily through our various subsidiaries.

Our business is organized into two operating segments: the Loan Origination segment and the CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes our activities specifically related to legacy investments that precede the re-launch of our business in May 2013.

On April 26, 2013, our board of directors approved the change of our name from Capital Trust, Inc. to Blackstone Mortgage Trust, Inc., which we effected on May 6, 2013 concurrently with a one-for-ten reverse stock split of our class A common stock. Except where the context indicates otherwise, all class A common stock numbers herein have been adjusted to give retroactive effect to the reverse stock split.

Our principal executive offices are located at 345 Park Avenue, 42nd Floor, New York, New York 10154, and our telephone number is (212) 655-0220. We were incorporated in Maryland in 1998, when we reorganized from a California common law business trust into a Maryland corporation.

### Our Manager

We are externally managed and advised by our Manager, which is responsible for administering our business activities and day-to-day operations and providing us our executive management team, investment team and appropriate support personnel.

Our Manager is a part of Blackstone s alternative asset management business, which includes the management of real estate funds, private equity funds, hedge fund solutions, credit-oriented funds and closed-end funds. Blackstone also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. Through its different businesses, Blackstone had total assets under management of approximately $265.8 billion as of December 31, 2013.

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In connection with the performance of its duties, our Manager benefits from the resources, relationships and expertise of Blackstone s global real estate group, which is the largest private equity real estate manager in the world with $79.4 billion of investor capital under management as of December 31, 2013. Blackstone s real estate group was co-founded in 1991 by John G. Schreiber, who currently serves as a member of our board of directors and is the chairman of our Manager s investment committee. Jonathan D. Gray, who serves as global head of Blackstone s real estate group, is a member of the board of directors of Blackstone and is a member of our Manager s investment committee. In addition to the 193 professionals who are part of the global Blackstone real estate platform as of December 31, 2013, our Manager benefits from Blackstone s global relationships with property owners, managers, lenders, brokers and advisors and the real-time knowledge derived from its broadly diversified real estate holdings.

Within Blackstone s real estate group, our Manager forms part of Blackstone Real Estate Debt Strategies, or BREDS, which was launched by Blackstone in 2008 to pursue opportunities relating to debt and preferred equity investments globally, with a focus on the United States and Europe. Michael B. Nash, the chief investment officer and co-founder of BREDS, serves as the executive chairman of our board of directors and is a member of our Manager s investment committee. As of December 31, 2013, 46 dedicated BREDS professionals managed approximately $9.0 billion of assets (including Blackstone Mortgage Trust and assets previously under Blackstone Mortgage Trust s management).

Our chief executive officer, chief financial officer, and other executive officers are senior BREDS professionals. None of our Manager, our executive officers, or other personnel supplied to us by our Manager is obligated to dedicate any specific amount of time to our business. Our Manager is subject to the supervision and oversight of our board of directors and has only such functions and authority as our board of directors delegates to it. Pursuant to a management agreement between our Manager and us, or Management Agreement, our Manager is entitled to receive a base management fee, an incentive fee, and expense reimbursements. See Item 13 Certain Relationships and Related Transactions, and Director Independence in this Annual Report on Form 10-K for more detail on the terms of the Management Agreement.

**Sale of Investment Management Platform**

On December 19, 2012, we completed the disposition of our investment management and special servicing business to Blackstone for a purchase price of $21.4 million. The sale included our equity interests in CT Investment Management Co., LLC, or CTIMCO, our related private investment fund co-investments, and 100% of the outstanding class A preferred stock of CT Legacy REIT Mezz Borrower, Inc., or CT Legacy REIT, a subsidiary that held certain legacy assets. We refer to the entire transaction as our Investment Management Business Sale. Pursuant to the terms of the Investment Management Business Sale, we are now managed by our Manager pursuant to terms and conditions of our Management Agreement. In addition, Blackstone received the right to designate two members of our board of directors. On December 19, 2012, we also closed our sale to Blackstone of 500,000 shares of our class A common stock for a purchase price of $10.0 million.

**Our Investment Strategy**

Our investment strategy is to originate loans and invest in debt and related instruments supported by institutional quality commercial real estate in attractive locations. Through our Manager, we draw on Blackstone s extensive real estate debt investment platform and its established sourcing, underwriting and structuring capabilities in order to execute our investment strategy. In addition, we benefit from our access to Blackstone s extensive network and substantial real estate and other investment holdings, which provide our Manager access to market data on a scale not available to many competitors. While the majority of our capital likely will continue to be invested in the United States, we expect to benefit from Blackstone s global real estate debt platform, which includes a team of nine investment professionals based in London that focuses on commercial real estate debt investment opportunities throughout Europe.

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We benefit from Blackstone s real estate debt investment expertise in order to directly originate, co-originate and acquire debt instruments in conjunction with acquisitions, refinancings and recapitalizations of commercial real estate around the world. In the case of loans we acquire, we focus on performing loans that are supported by well-capitalized properties and portfolios. We believe that the scale and flexibility of our capital, as well as our Manager s and its affiliates relationships, enables us to target strong sponsors and invest in debt collateralized by large, high-quality assets and portfolios.

As market conditions evolve over time, we expect to adjust our investment strategy to adapt to such changes as appropriate. We believe there are significant opportunities among our target assets that currently present attractive risk-return profiles. However, to capitalize on the investment opportunities that may be present at various other points of an economic cycle, we may expand or change our investment strategy and target assets. We believe that the diversification of the portfolio of assets that we acquire, our ability to aggressively manage our target assets, and the flexibility of our strategy will position us to generate attractive long-term returns for our stockholders in a variety of market conditions.

## Our Target Assets

The assets in which we intend to invest will include the following types of commercial real estate loans and other debt-oriented investments, focusing primarily on the office, lodging, retail, industrial, residential and healthcare real estate sectors in the United States and Europe, including, but not limited to:

### *Senior Mortgage Loans*

Our business is focused on originating senior mortgage loans that are backed by commercial real estate assets. These loans are secured by real estate and evidenced by a first priority mortgage. These loans may vary in duration, may bear interest at a fixed or floating rate, may amortize, and typically require a balloon payment of principal at maturity. These investments may encompass a whole loan or may also include *pari passu* participations within such a mortgage loan.

### *Subordinate Loans*

Although originating senior mortgage loans is our primary area of focus, we also originate subordinate loans, including subordinate mortgage interests and mezzanine loans.

*Subordinate Mortgage Interests*

These are interests, often referred to as B Notes, in a junior portion of the mortgage loan. Subordinate mortgage interests have the same borrower and benefit from the same underlying secured obligation and collateral as the holder of a mortgage loan. These subordinate interests may include *pari passu* participations within such interest and may also be evidenced by their own promissory notes or may be evidenced by a junior participation in a mortgage loan. In either case, the interests are subordinated to the A Note or senior participation interest by virtue of a contractual arrangement, which typically governs payment priority and each party s rights and remedies with respect to the mortgage loan. As a general matter, following a default under the mortgage loan, all amounts are paid sequentially first to the A Note or senior participation interest and then to the B Note or subordinate participation interest. The holder of the senior participation interest typically has the exclusive authority to administer the loan, granting the holder of the subordinate mortgage interest discretion over specified major decisions; however, in the event that the loan becomes non-performing, the holder of the subordinate mortgage interest typically has effective control over the remedies relating to the enforcement of the mortgage loan, including ultimate control of the foreclosure process. In some cases, there may be multiple senior and/or junior interests in a single mortgage loan.

*Mezzanine Loans*

These are loans (including *pari passu* participations in such loans) made to the owners of a mortgage borrower and secured by a pledge of equity interests in the mortgage borrower. These loans are subordinate to a first mortgage loan but senior to the owners equity. These loans may be tranched into senior and junior mezzanine loans, with the junior mezzanine lenders secured by a pledge of the equity interests in the more senior mezzanine borrower. Following a default on a mezzanine loan, and subject to negotiated terms with the mortgage lender or other mezzanine lenders, the mezzanine lender generally has the right to foreclose on its equity interest and become the owner of the property, directly or indirectly, subject to the lien of the first mortgage and any debt senior to it including any outstanding senior mezzanine debt. In addition, the mezzanine lender typically has additional rights *vis-à-vis* the more senior lenders, including the right to cure defaults under the mortgage loan and any senior mezzanine loan and purchase the mortgage loan and any senior mezzanine loan, in each case under certain circumstances following a default on the mortgage loan.

***Other Loans and Investments***

In addition to originating or purchasing senior mortgage loans and subordinate loans, we may invest in other commercial real estate loans, preferred equity, and other debt-oriented investments such as real estate securities or note financings.

*Preferred Equity*

These are investments subordinate to any junior mezzanine loan, but senior to the owners common equity. Preferred equity investments pay a dividend, rather than interest payments and often have the right for such dividends to accumulate if there is insufficient cash flow to pay the dividend currently. These interests are not secured by the underlying real estate, but upon the occurrence of a default, the preferred equity provider typically has the right to effectuate a change of control with respect to the ownership of the property.

*Real Estate Securities*

These are interests in real estate which may take the form of commercial mortgage-backed securities, or CMBS, or collateralized loan obligations, or CLOs. In each case, these interests are collateralized by pools of real estate debt instruments, often first mortgage loans. The underlying loans are aggregated into a pool and sold as securities to different investors. Under the pooling and servicing agreements that govern these pools, the loans are administered by a trustee and servicers, which act on behalf of all investors and distribute the underlying cash flows to the different classes of securities in accordance with their seniority and terms.

*Note Financing*

These are loans secured by other mortgage loans, subordinate mortgage interests, and mezzanine loans. Following a default under a note financing, the lender providing the note financing would succeed to the rights of lender on the underlying loan interests.

The allocation of our capital among our target assets will depend on prevailing market conditions at the time we invest and may change over time in response to different prevailing market conditions, including with respect to interest rates and general economic and credit market conditions. In addition, in the future we may invest in assets other than our target assets, in each case, subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exclusion from regulation under the Investment Company Act. Such other assets may include, among other things, other commercial real estate-related debt investments, such as loans to REITs and real estate operating companies, or REOCs, and corporate bonds of REITs and REOCs; construction/rehabilitation loans; loans to providers of real estate net lease financing; other real estate-related financial assets and investments, including preferred stock and convertible debt securities of REITs and REOCs; credit default swaps and other derivative securities; CDOs; and non-real estate-related debt investments.

## Our Portfolio

For information regarding our Loan Origination segment s portfolio as of December 31, 2013, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations II. Loan Origination Portfolio and V. Loan Portfolio Details in this Annual Report on Form 10-K.

## Investment Guidelines

Our board of directors has approved the following investment guidelines:

- no investment shall be made that would cause us to fail to qualify as a REIT under the Internal Revenue Code;
- no investment shall be made that would cause us or any of our subsidiaries to be regulated as an investment company under the Investment Company Act;
- our Manager shall seek to invest our capital in a broad range of investments in or relating to public and/or private debt, non-controlling equity, loans and/or other interests relating to real estate assets (including pools thereof), real estate companies, and/or real estate-related holdings;
- prior to the deployment of capital into investments, our Manager may cause our capital to be invested in any short-term investments in money market funds, bank accounts, overnight repurchase agreements with primary federal reserve bank dealers collateralized by direct U.S. government obligations and other instruments or investments reasonable determined by our Manager to be of high quality;
- not more than 25% of our Equity, as defined in the Management Agreement with our Manager, will be invested in any individual investment without the approval of a majority of the investment risk management committee of our board of directors; and
- any investment in excess of $150.0 million requires the approval of a majority of the investment risk management committee of our board of directors.

These investment guidelines may be amended, restated, modified, supplemented or waived pursuant to the approval of a majority of our board of directors, which must include a majority of the independent directors, without the approval of our stockholders.

## Financing Strategy and Financial Risk Management

In addition to raising capital through public offerings of our equity securities, our financing strategy includes secured and unsecured repurchase and other credit facilities, securitizations, resecuritizations, and public and private, secured and unsecured debt issuances by us or our subsidiaries. In addition to our current repurchase facilities, asset-specific financings, and convertible notes, we may access additional repurchase facilities, asset-specific financings, debt issuances or more traditional borrowings such as credit facilities.

The amount of leverage we may employ for particular assets will depend upon our Manager s assessment of the credit, liquidity, price volatility and other risks of those assets and the financing counterparties, and availability of particular types of financing at the then-current time and the financial covenants governing our then outstanding indebtedness. Our decision to use leverage to finance our assets will be at the discretion of our Manager and will not be subject to the approval of our stockholders. We currently expect that our leverage will not exceed, on a debt to equity basis, a ratio of 4-to-1. We will endeavor to match the terms and indices of our assets and liabilities, including in certain instances through the use of derivatives. We will also seek to minimize the risks associated with recourse borrowing.

Subject to maintaining our qualification as a REIT, we may, from time to time, engage in hedging transactions that seek to mitigate the effects of fluctuations in interest rates or currencies and their effects on our cash flows. These hedging transactions could take a variety of forms, including interest rate or currency swaps or cap agreements, options, futures contracts, forward rate or currency agreements or similar financial instruments.

### Competition

We are engaged in a competitive business. In our lending and investment activities, we compete for opportunities with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by Blackstone and its affiliates), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs have raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for lending and investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT rule compliance or maintenance of an exclusion from regulation under the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of loans and investments and offer more attractive pricing or other terms than us. Furthermore, competition for originations of and investments in our target assets may lead to decreasing yields, which may further limit our ability to generate desired returns.

In the face of this competition, we have access to our Manager s and Blackstone s professionals and their industry expertise, which we believe provide us with a competitive advantage and help us assess risks and determine appropriate pricing for certain potential investments. We believe these relationships will enable us to compete more effectively for attractive investment opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face. For additional information concerning these competitive risks, see Item 1A Risk Factors Risks Related to Our Lending and Investment Activities We operate in a competitive market for lending and investment opportunities which has recently intensified, and competition may limit our ability to originate or acquire desirable loans and investments in our target assets and could also affect the yields of these assets and have a material adverse effect on our business, financial condition, and results of operation.

### Employees

We do not have any employees. We are externally managed by our Manager pursuant to the Management Agreement between our Manager and us. Our executive officers serve as officers of our Manager, and are employed by an affiliate of our Manager.

### Government Regulation

Our operations in the United States are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (i) regulate credit granting activities; (ii) establish maximum interest rates, finance charges and other charges; (iii) require disclosures to customers; (iv) govern secured transactions; and (v) set collection, foreclosure, repossession and claims-handling procedures and other trade practices. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans. We intend to conduct our business so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Furthermore, our international activities are also subject to local regulations.

In our judgment, existing statutes and regulations have not had a material adverse effect on our business. In the wake of the recent global financial crisis, legislators in the United States and in other countries have said that greater regulation of financial services firms is needed, particularly in areas such as risk management, leverage and disclosure. While we expect that new regulations in these areas will be adopted in the future, it is not possible at this time to forecast the exact nature of any future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon our future business, financial condition or results of operations or prospects.

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### Taxation of the Company

We made an election to be taxed as a REIT, effective January 1, 2003, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, for U.S. federal income tax purposes. We generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal excise taxes and state and local taxes on our income and assets. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and will not be able to qualify as a REIT for the subsequent four full taxable years.

Furthermore, we have formed several taxable REIT subsidiaries, or TRS. Any TRS we own will pay federal, state and local income tax on its net taxable income. See Item 1A Risk Factors Risks Related to our REIT Status and Certain Other Tax Items for additional tax status information.

### Website Access to Reports

We maintain a website at *www.bxmt.com*. We are providing the address to our website solely for the information of investors. The information on our website is not a part of, nor is it incorporated by reference into this report. Through our website, we make available, free of charge, our annual proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish them to, the SEC. The SEC maintains a website that contains these reports at *www.sec.gov*.

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## ITEM 1A. RISK FACTORS

### FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, which involve certain known and unknown risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments. These forward-looking statements are generally identified by their use of such terms and phrases as intend, goal, estimate, expect, project, projections, plans, seek should, could, may, designed to, foreseeable future, believe, and scheduled and similar expressions. Our a or outcomes may differ materially from those anticipated. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Our actual results may differ significantly from any results expressed or implied by these forward-looking statements. Some, but not all, of the factors that might cause such a difference include, but are not limited to:

- the general political, economic and competitive conditions in the United States and foreign jurisdictions where we invest;
- the level and volatility of prevailing interest rates and credit spreads;
- adverse changes in the real estate and real estate capital markets;
- difficulty in obtaining financing or raising capital;
- the deterioration of performance and thereby credit quality of property securing our investments, borrowers and, in general, the risks associated with the ownership and operation of real estate that may cause cash flow deterioration to us and potentially principal losses on our investments;
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us;
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise;
- events, contemplated or otherwise, such as acts of God including hurricanes, earthquakes, and other natural disasters, acts of war and/or terrorism and others that may cause unanticipated and uninsured performance

declines and/or losses to us or the owners and operators of the real estate securing our investments;

the cost of operating our business, including, but not limited to, the cost of operating a real estate investment platform and the cost of operating as a publicly traded company;

authoritative generally accepted accounting principles, or GAAP, or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, or FASB, the Securities and Exchange Commission, or SEC, the Internal Revenue Service, or IRS, the New York Stock Exchange, or NYSE, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business; and

other factors, including those items discussed in risk factors set forth below.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We caution you not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update or revise any forward-looking statements included or incorporated by reference in this Annual Report after the date hereof, either to conform them to actual results or to changes in our expectations.

## Risks Related to Our Lending and Investment Activities

***Our loans and investments expose us to risks associated with debt-oriented real estate investments generally.***

We seek to invest primarily in debt in or relating to real estate-related businesses, assets or interests. Any deterioration of real estate fundamentals generally, and in the United States and Europe in particular, could negatively impact our performance by making it more difficult for entities in which we have an investment, or borrower entities, to satisfy their debt payment obligations, increasing the default risk applicable to borrower entities, and/or making it relatively more difficult for us to generate attractive risk-adjusted returns. Changes in general economic conditions will affect the creditworthiness of borrower entities and may include economic and/or market fluctuations, changes in environmental, zoning and other laws, casualty or condemnation losses, regulatory limitations on rents, decreases in property values, changes in the appeal of properties to tenants, changes in supply and demand, fluctuations in real estate fundamentals (including average occupancy and room rates for hotel properties), energy supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates and operating expenses, changes in interest rates, changes in the availability of debt financing and/or mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy that depress travel activity, demand and/or real estate values generally and other factors that are beyond our control. The value of securities of companies that service the real estate business sector may also be affected by such risks.

We cannot predict the degree to which economic conditions generally, and the conditions for real estate debt investing in particular, will improve or decline. Declines in the performance of the U.S. and global economies or in the real estate debt markets could have a material adverse effect on our business, financial condition and results from operations. In addition, while improved real estate fundamentals have resulted in increased investment opportunities for us, market conditions relating to real estate debt investments have evolved since the global financial crisis, which has resulted in a modification to certain loan structures and/or market terms. Any such changes in loan structures and/or market terms may make it relatively more difficult for us to monitor and evaluate our loans and investments.

***Commercial real estate-related investments that are secured, directly or indirectly, by real property are subject to delinquency, foreclosure and loss, which could result in losses to us.***

Commercial real estate debt instruments (e.g., mortgages, mezzanine loans and preferred equity) that are secured by commercial property are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower s ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things:

- tenant mix and tenant bankruptcies;

success of tenant businesses;

property management decisions, including with respect to capital improvements, particularly in older building structures;

property location and condition;

competition from other properties offering the same or similar services;

changes in laws that increase operating expenses or limit rents that may be charged;

- any need to address environmental contamination at the property;
- changes in national, regional or local economic conditions and/or specific industry segments;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- changes in interest rates and in the state of the debt and equity capital markets, including diminished availability or lack of debt financing for commercial real estate;
- changes in real estate tax rates and other operating expenses;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation;
- acts of God, terrorism, social unrest and civil disturbances, which may decrease the availability of or increase the cost of insurance or result in uninsured losses; and
- adverse changes in zoning laws.

In addition, we are exposed to the risk of judicial proceedings with our borrowers and entities we invest in, including bankruptcy or other litigation, as a strategy to avoid foreclosure or enforcement of other rights by us as a lender or investor. In the event that any of the properties or entities underlying or collateralizing our loans or investments experiences any of the foregoing events or occurrences, the value of, and return on, such investments, and could adversely affect our results of operations and financial condition.

***Interest rate fluctuations could reduce our ability to generate income on our loans and other investments, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.***

Our primary interest rate exposures relate to the yield on our loans and other investments and the financing cost of our debt, as well as our interest rate swaps that we may utilize for hedging purposes. Changes in interest rates may affect our net income from loans and other investments, which is the difference between the interest and related income we earn on our interest-earning investments and the interest and related expense we incur in financing these investments. Interest rate fluctuations resulting in our interest and related expense exceeding interest and related income would result in operating losses for us. Changes in the level of interest rates also may affect our ability to make loans or investments, the value of our loans and investments and our ability to realize gains from the disposition of assets. Increases in interest rates may also negatively affect demand for loans and could result in higher borrower default rates.

Our operating results depend, in part, on differences between the income earned on our investments, net of credit losses, and our financing costs. The yields we earn on our assets and our borrowing costs tend to move in the same direction in response to changes in interest rates. However, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Although we seek to match the terms of our liabilities to the expected lives of loans that we acquire or originate, circumstances may arise in which our liabilities are shorter in duration than our assets, resulting in their adjusting faster in response to changes in interest rates. For any period during which our investments are not match-funded, the income earned on such investments may respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may immediately and significantly decrease our results of operations and cash flows and the market value of our investments. In addition, unless we enter into hedging or similar transactions with respect to the portion of our assets that we fund using our balance sheet, returns we achieve on such assets will generally increase as interest rates for those assets rise and decrease as interest rates for those assets decline.

***Prepayment rates may adversely affect the yield on our loans and other investments and the value of our portfolio of assets.***

In periods of declining interest rates, prepayment rates on loans generally increase. If general interest rates decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the value of our assets may be affected by prepayment rates on loans. If we originate or acquire mortgage-related securities or a pool of mortgage securities, we anticipate that the underlying mortgages will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to par value, when borrowers prepay their loans faster than expected, the corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their loans slower than expected, the decrease in corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. In addition, as a result of the risk of prepayment, the market value of the prepaid assets may benefit less than other fixed income securities from declining interest rates.

Prepayment rates on loans may be affected by a number of factors including, but not limited to, the then-current level of interest rates, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the loans, possible changes in tax laws, other opportunities for investment, and other economic, social, geographic, demographic and legal factors and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks.

***The lack of liquidity in certain of our target assets may adversely affect our business.***

The illiquidity of certain of our target assets may make it difficult for us to sell such investments if the need or desire arises. Certain target assets such as mortgages, B Notes, mezzanine and other loans (including participations) and preferred equity, in particular, are relatively illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty of recovery in the event of a borrower s default. In addition, certain of our investments may become less liquid after our investment as a result of periods of delinquencies or defaults or turbulent market conditions, which may make it more difficult for us to dispose of such assets at advantageous times or in a timely manner. Moreover, many of the loans and securities we invest in will not be registered under the relevant securities laws, resulting in prohibitions against their transfer, sale, pledge or their disposition except in transactions that are exempt from registration requirements or are otherwise in accordance with such laws. As a result, we expect many of our investments will be illiquid, and if we are required to liquidate all or a portion of our portfolio quickly, for example as a result of margin calls, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment to the extent that we or our Manager (and/or its affiliates) has or could be attributed as having material, non-public information regarding such business entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

***Any distressed loans or investments we make, or loans and investments that later become distressed, may subject us to losses and other risks relating to bankruptcy proceedings.***

While our loans and investments focus primarily on performing real estate related interests, our loans and investments may also include making distressed investments from time to time (e.g., investments in defaulted, out-of-favor or distressed bank loans and debt securities) or may involve investments that become non-performing following our acquisition thereof. Certain of our investments may include properties that typically are highly leveraged, with significant burdens on cash flow and, therefore, involve a high degree of financial risk. During an economic downturn or recession, loans or securities of financially or operationally troubled borrowers or issuers are more likely to go into default than loans or securities of other borrowers or issuers. Loans or securities of financially or operationally troubled issuers are less liquid and more volatile than loans or securities of borrowers or issuers not experiencing such difficulties. The market prices of such securities are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. Investment in the loans or securities of financially or operationally troubled borrowers or issuers involves a high degree of credit and market risk.

In certain limited cases (e.g., in connection with a workout, restructuring and/or foreclosing proceedings involving one or more of our investments), the success of our investment strategy with respect thereto will depend, in part, on our ability to effectuate loan modifications and/or restructure and improve the operations of our borrower entities. The activity of identifying and implementing successful restructuring programs and operating improvements entails a high degree of uncertainty. There can be no assurance that we will be able to identify and implement successful restructuring programs and improvements with respect to any distressed loans or investments we may have from time to time.

These financial difficulties may never be overcome and may cause borrower entities to become subject to bankruptcy or other similar administrative proceedings. There is a possibility that we may incur substantial or total losses on our investments and in certain circumstances, become subject to certain additional potential liabilities that may exceed the value of our original investment therein. For example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In any reorganization or liquidation proceeding relating to our investments, we may lose our entire investment, may be required to accept cash or securities with a value less than our original investment and/or may be required to accept different terms, including payment over an extended period of time. In addition, under certain circumstances, payments to us may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, bankruptcy laws and similar laws applicable to administrative proceedings may delay our ability to realize on collateral for loan positions held by us, may adversely affect the economic terms and priority of such loans through doctrines such as equitable subordination or may result in a restructuring of the debt through principles such as the cramdown provisions of the bankruptcy laws.

***We may not have control over certain of our loans and investments.***

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may:

- acquire investments subject to rights of senior classes and servicers under intercreditor or servicing agreements;
- acquire only a minority and/or a non-controlling participation in an underlying investment;
- co-invest with others through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or

rely on independent third party management or servicing with respect to the management of an asset. Therefore, we may not be able to exercise control over all aspects of our loans or investments. Such financial assets may involve risks not present in investments where senior creditors, junior creditors, servicers or third parties controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior or junior creditors or servicers whose interests may not be aligned with ours. A partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals that are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. In addition, we may, in certain circumstances, be liable for the actions of our partners or co-venturers.

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***B Notes, mezzanine loans and other investments that are subordinated or otherwise junior in an issuer s capital structure and that involve privately negotiated structures will expose us to greater risk of loss.***

We may from time to time originate or acquire B Notes, mezzanine loans and other investments that are subordinated or otherwise junior in an issuer s capital structure (such as preferred equity) and that involve privately negotiated structures. To the extent we invest in subordinated debt or mezzanine tranches of an entity s capital structure, such investments and our remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, will be subject to the rights of holders of more senior tranches in the issuer s capital structure and, to the extent applicable, contractual intercreditor and/or participation agreement provisions. Significant losses related to such loans or investments could adversely affect our results of operations and financial condition.

As the terms of such loans and investments are subject to contractual relationships among lenders, co-lending agents and others, they can vary significantly in their structural characteristics and other risks. For example, the rights of holders of B Notes to control the process following a borrower default may vary from transaction to transaction. Further, B Notes typically are secured by a single property and accordingly reflect the risks associated with significant concentration.

Like B Notes, mezzanine loans are by their nature structurally subordinated to more senior property-level financings. If a borrower defaults on our mezzanine loan or on debt senior to our loan, or if the borrower is in bankruptcy, our mezzanine loan will be satisfied only after the property-level debt and other senior debt is paid in full. As a result, a partial loss in the value of the underlying collateral can result in a total loss of the value of the mezzanine loan. In addition, even if we are able to foreclose on the underlying collateral following a default on a mezzanine loan, we would be substituted for the defaulting borrower and, to the extent income generated on the underlying property is insufficient to meet outstanding debt obligations on the property, may need to commit substantial additional capital and/or deliver a replacement guarantee by a credit worthy entity, which could include us, to stabilize the property and prevent additional defaults to lenders with existing liens on the property.

***Loans on properties in transition will involve a greater risk of loss than conventional mortgage loans.***

We may invest in transitional loans to borrowers who are typically seeking short-term capital to be used in an acquisition or rehabilitation of a property. The typical borrower under a transitional loan has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower s projections, or if the borrower fails to improve the quality of the asset s management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and we bear the risk that we may not recover some or all of our investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a transitional loan. Transitional loans therefore are subject to risks of a borrower s inability to obtain permanent financing to repay the transitional loan. In the event of any default under transitional loans that may be held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the transitional loan. To the extent we suffer such losses with respect to these transitional loans, it could adversely affect our results of operations and financial condition.

***Risks of cost overruns and noncompletion of renovations of properties in transition may result in significant losses.***

The renovation, refurbishment or expansion of a property by a borrower involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks, delays in legal and other approvals (e.g., for condominiums) and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment on a timely basis or at all, which could result in significant losses.

***There are increased risks involved with construction lending activities.***

We may invest in loans which fund the construction of commercial properties. Construction lending generally is considered to involve a higher degree of risk than other types of lending due to a variety of factors, including the difficulties in estimating construction costs and anticipating construction delays and, generally, the dependency on timely, successful completion and the lease-up and commencement of operations post-completion.

If a borrower fails to complete the construction of a project or experiences cost overruns, there could be adverse consequences associated with the loan, including a loss of the value of the property securing the loan, a borrower claim against us for failure to perform under the loan documents if we choose to stop funding, increased costs to the borrower that the borrower is unable to pay, a bankruptcy filing by the borrower, and abandonment by the borrower of the collateral for the loan.

***Loans or investments involving international real estate-related assets are subject to special risks that we may not manage effectively, which would have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.***

We may invest a material portion of our capital in assets outside the United States if our Manager deems such investments appropriate in its discretion. To the extent that we invest in non-domestic real estate-related assets, we may be subject to certain risks associated with international investments generally, including, among others:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another;

- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity;

- the burdens of complying with international regulatory requirements and prohibitions that differ between jurisdictions;

- changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments;

- a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance;

- political hostility to investments by foreign investors;
- higher rates of inflation;
- higher transaction costs;
- difficulty enforcing contractual obligations;
- fewer investor protections;
- certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments; and
- potentially adverse tax consequences.

If any of the foregoing risks were to materialize, they could adversely affect our results of operations and financial condition.

***The ongoing Eurozone financial crisis may have an adverse effect on investments in Europe and could result in the exit of one or more member states from the Eurozone or a breakup of the Eurozone entirely, which creates uncertainty and could affect our investments directly.***

A portion of our investments consists of assets secured by European collateral. The ongoing situation relating to the sovereign debt of several countries, including Greece, Ireland, Italy, Spain and Portugal, together with the risk of contagion to other more financially stable countries, has also raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Any further deterioration in the global or Eurozone economy could have a significant adverse effect on our activities and the value of any European collateral.

In addition, we hold assets that are denominated in British pounds sterling and may hold assets in the future denominated in Euros. Further deterioration in the Eurozone economy could have a material adverse effect on the value of our investment in such assets and amplify the currency risks faced by us.

If any country were to leave the Eurozone, or if the Eurozone were to break up entirely, the treatment of debt obligations previously denominated in Euros is uncertain. A number of issues would be raised, such as whether obligations that are expressed to be payable in Euros would be re-denominated into a new currency. The answer to this and other questions is uncertain and would depend on the way in which the break-up occurred and also on the nature of the transaction; the law governing it; which courts have jurisdiction in relation to it; the place of payment; and the place of incorporation of the payor. If we held any investments in Euros at the time of any Eurozone exits or break-up, this uncertainty and potential re-denomination could have a material adverse effect on the value of our investments and the income from them.

***Transactions denominated in foreign currencies subject us to foreign currency risks.***

We hold assets denominated in British pounds sterling, and may acquire assets denominated in Euros or other foreign currencies, which exposes us to foreign currency risk. As a result, a change in foreign currency exchange rates may have an adverse impact on the valuation of our assets, as well as our income and distributions. Any such changes in foreign currency exchange rates may impact the measurement of such assets or income for the purposes of our REIT tests and may affect the amounts available for payment of dividends on our class A common stock.

***Our success depends on the availability of attractive investments and our Manager s ability to identify, structure, consummate, leverage, manage and realize returns on our investments.***

Our operating results are dependent upon the availability of, as well as our Manager s ability to identify, structure, consummate, leverage, manage and realize returns on our investments. In general, the availability of favorable investment opportunities and, consequently, our returns, will be affected by the level and volatility of interest rates, conditions in the financial markets, general economic conditions, the demand for investment opportunities in our target assets and the supply of capital for such investment opportunities. We cannot make any assurances that our Manager will be successful in identifying and consummating investments that satisfy our rate of return objectives or that such investments, once made, will perform as anticipated.

***Real estate valuation is inherently subjective and uncertain.***

The valuation of real estate and therefore the valuation of any underlying security relating to loans made by us is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. In addition, where we invest in construction loans, initial valuations will assume completion of the project. As a result, the valuations of the real estate assets against which we will make loans are subject to a large degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets.

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***We operate in a competitive market for lending and investment opportunities which has recently intensified, and competition may limit our ability to originate or acquire desirable loans and investments in our target assets and could also affect the yields of these assets and have a material adverse effect on our business, financial condition, and results of operation.***

We operate in a competitive market for lending and investment opportunities, which recently has intensified. Our profitability depends, in large part, on our ability to originate or acquire our target assets on attractive terms. In originating or acquiring our target assets, we compete with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by affiliates of Blackstone), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs have raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for lending and investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT rule compliance or maintenance of an exclusion from regulation under the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, offer more attractive pricing or other terms and establish more relationships than us. Furthermore, competition for originations of and investments in our target assets may lead to the yields of such assets decreasing, which may further limit our ability to generate satisfactory returns. Also, as a result of this competition, desirable loans and investments in our target assets may be limited in the future and we may not be able to take advantage of attractive lending and investment opportunities from time to time, thereby limiting our ability to identify and originate loans or make investments that are consistent with our investment objectives. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

***Our loans and investments may be concentrated in terms of geography, asset types and sponsors.***

We are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. Therefore, our investments in our target assets may at times be concentrated in certain property types that are subject to higher risk of default or foreclosure, or secured by properties concentrated in a limited number of geographic locations.

To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our investments within a short time period, it could adversely affect our results of operations and financial condition.

***The due diligence process that our Manager undertakes in regard to investment opportunities may not reveal all facts that may be relevant in connection with an investment and if our Manager incorrectly evaluates the risks of our investments, we may experience losses.***

Before making investments for us, our Manager will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances relevant to each potential investment. When conducting due diligence, our Manager may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of potential investment. Relying on the resources available to it, our Manager will evaluate our potential investments based on criteria it deems appropriate for the relevant investment. Our Manager s loss estimates may not prove accurate, as actual results may vary from estimates. If our Manager underestimates the asset-level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

***Insurance on loans and real estate securities collateral may not cover all losses.***

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, which may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might result in insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received with respect to a property relating one of our investments might not be adequate to restore our economic position with respect to our investment. Any uninsured loss could result in the corresponding nonperformance of or loss on our investment related to such property.

***The impact of any future terrorist attacks and the availability of affordable terrorism insurance expose us to certain risks.***

Terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the United States and its allies may have an adverse impact on the U.S. financial markets and the economy in general. We cannot predict the severity of the effect that any such future events would have on the U.S. financial markets, the economy or our business. Any future terrorist attacks could adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to such adverse effects than others, particularly those secured by properties in major cities or properties that are prominent landmarks or public attractions. We may suffer losses as a result of the adverse impact of any future terrorist attacks and these losses may adversely impact our results of operations.

In addition, the enactment of the Terrorism Risk Insurance Act of 2002, or TRIA, and the subsequent enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, which extended TRIA through the end of 2014, requires insurers to make terrorism insurance available under their property and casualty insurance policies and provides federal compensation to insurers for insured losses. However, this legislation does not regulate the pricing of such insurance and there is no assurance that this legislation will be extended beyond 2014. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market s overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties that we invest in are unable to obtain affordable insurance coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment.

***We may need to foreclose on certain of the loans we originate or acquire, which could result in losses that harm our results of operations and financial condition.***

We may find it necessary or desirable to foreclose on certain of the loans we originate or acquire, and the foreclosure process may be lengthy and expensive. Whether or not we have participated in the negotiation of the terms of any such loans, we cannot assure you as to the adequacy of the protection of the terms of the applicable loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted by lenders or borrowers that might interfere with enforcement of our rights. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against us, including, without limitation, lender liability claims and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure action and seek to force the lender into a modification of the loan or a favorable buy-out of the borrower s position in the loan. In some states, foreclosure actions can take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process and potentially results in a reduction or discharge of a borrower s debt. Foreclosure may create a negative public perception of the related property, resulting in a diminution of its value. Even if we are successful in foreclosing on a loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us. Furthermore, any costs or delays involved in the foreclosure of the loan or a liquidation of the underlying property will further reduce the net proceeds and, thus, increase any such loss.

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***Liability relating to environmental matters may impact the value of properties that we may acquire upon foreclosure of the properties underlying our investments.***

To the extent we foreclose on properties with respect to which we have extended loans, we may be subject to environmental liabilities arising from such foreclosed properties. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

If we foreclose on any properties underlying our investments, the presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could adversely affect our results of operations and financial condition.

***We may be subject to lender liability claims, and if we are held liable under such claims, we could be subject to losses.***

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. We cannot assure prospective investors that such claims will not arise or that we will not be subject to significant liability if a claim of this type did arise.

***Any investments we make in CMBS, CLOs, CDOs and other similar structured finance investments would pose additional risks, including the risks of the securitization process and the risk that any special servicer may take actions that could adversely affect our interests.***

We may from time to time invest in CMBS, CLOs, CDOs and other similar securities, which are subordinated classes of securities in a structure of securities secured by a pool of mortgages or loans. Accordingly, such securities are the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Thus, there is generally only a nominal amount of equity or other debt securities junior to such positions, if any, issued in such structures. The estimated fair values of such subordinated interests tend to be much more sensitive to adverse economic downturns and underlying borrower developments than more senior securities. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality CMBS, CLOs or CDOs because the ability of borrowers to make principal and interest payments on the mortgages or loans underlying such securities may be impaired, as has occurred throughout the recent economic recession and weak recovery.

Subordinate interests such as CLOs, CDOs and similar structured finance investments generally are not actively traded and are relatively illiquid investments and volatility in CLO and CDO trading markets may cause the value of these investments to decline. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral value is available to satisfy interest and principal payments and any other fees in connection with the trust or other conduit arrangement for such securities, we may incur significant losses.

With respect to the CMBS, CLOs and CDOs in which we may invest, control over the related underlying loans will be exercised through a special servicer or collateral manager designated by a directing certificateholder or a controlling class representative, or otherwise pursuant to the related securitization documents. We may acquire classes of CMBS, CLOs or CDOs, for which we may not have the right to appoint the directing certificateholder or otherwise direct the special servicing or collateral management. With respect to the management and servicing of those loans, the related special servicer or collateral manager may take actions that could adversely affect our interests.

***Any credit ratings assigned to our investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.***

Some of our investments may be rated by rating agencies such as Moody s Investors Service, Fitch Ratings, Standard & Poor s, DBRS, Inc., Realpoint LLC or Kroll Bond Rating Agency. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value and liquidity of our investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us.

***Investments in non-conforming and non-investment grade rated loans or securities involve increased risk of loss.***

Many of our investments may not conform to conventional loan standards applied by traditional lenders and either will not be rated (as is typically the case for private loans) or will be rated as non-investment grade by the rating agencies. Private loans often are not rated by credit rating agencies. Non-investment grade ratings typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers credit history, the underlying properties cash flow or other factors. As a result, these investments should be expected to have a higher risk of default and loss than investment-grade rated assets. Any loss we incur may be significant and may adversely affect our results of operations and financial condition. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

***Some of our investments and investment opportunities may be in synthetic form.***

Synthetic investments are contracts between parties whereby payments are exchanged based upon the performance of another security or asset, or reference asset. In addition to the risks associated with the performance of the reference asset, these synthetic interests carry the risk of the counterparty not performing its contractual obligations. Market standards, GAAP accounting methodology, regulatory oversight and compliance requirements, tax and other regulations related to these investments are evolving, and we cannot be certain that their evolution will not adversely impact the value or sustainability of these investments. Furthermore, our ability to invest in synthetic investments, other than through taxable REIT subsidiaries, may be severely limited by the REIT qualification requirements because synthetic investment contracts generally are not qualifying assets and do not produce qualifying income for purposes of the REIT asset and income tests.

***We may invest in derivative instruments, which would subject us to increased risk of loss.***

Subject to maintaining our qualification as a REIT, we may invest in derivative instruments. Derivative instruments, especially when purchased in large amounts, may not be liquid in all circumstances, so that in volatile markets we may not be able to close out a position without incurring a loss. The prices of derivative instruments, including swaps, futures, forwards and options, are highly volatile and such instruments may subject us to significant losses. The value of such derivatives also depends upon the price of the underlying instrument or commodity. Such derivatives and other customized instruments also are subject to the risk of non-performance by the relevant counterparty. In addition, actual or implied daily limits on price fluctuations and speculative position limits on the exchanges or over-the-counter markets in which we may conduct our transactions in derivative instruments may prevent prompt liquidation of positions, subjecting us to the potential of greater losses. Derivative instruments that may be purchased or sold by us may include instruments not traded on an exchange. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which we can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between bid and asked prices for derivative instruments that are traded over-the-counter and not on an exchange. Such over-the-counter derivatives are also typically not subject to the same type of investor protections or governmental regulation as exchange traded instruments.

In addition, we may invest in derivative instruments that are neither presently contemplated nor currently available, but which may be developed in the future, to the extent such opportunities are both consistent with our investment objectives and legally permissible. Any such investments may expose us to unique and presently indeterminate risks, the impact of which may not be capable of determination until such instruments are developed and/or we determine to make such an investment.

***We may experience a decline in the fair value of our assets.***

A decline in the fair value of our assets may require us to recognize an other-than-temporary impairment against such assets under GAAP if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the original acquisition cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we experience a decline in the fair value of our assets, it could adversely affect our results of operations and financial condition.

***Some of our portfolio investments may be recorded at fair value and, as a result, there will be uncertainty as to the value of these investments.***

Some of our portfolio investments may be in the form of positions or securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We will value these investments quarterly at fair value, which may include unobservable inputs. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of our class A common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Additionally, our results of operations for a given period could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

## Risks Related to Our Financing and Hedging

***We may incur a significant amount of debt, which may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.***

We currently have outstanding indebtedness and, subject to market conditions and availability, we may incur a significant amount of additional debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. We may also issue additional debt or equity securities to fund our growth. The percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders, the type of asset we are funding, whether the financing is recourse or non-recourse, debt restrictions contained in those financing arrangements and the lenders and rating agencies estimate of the stability of our investment

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portfolio s cash flow. We may significantly increase the amount of leverage we utilize at any time without approval of our board of directors. In addition, we may leverage individual assets at substantially higher levels. Incurring substantial debt could subject us to many risks that, if realized, would materially and adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal of and interest on our debt, which is likely to result in (a) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision), which we then may be unable to repay from internal funds or to refinance on favorable terms, or at all, (b) our inability to borrow undrawn amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements, which would result in a decrease in our liquidity, and/or (c) the loss of some or all of our collateral assets to foreclosure or sale;

- our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase in an amount sufficient to offset the higher financing costs;

- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, future business opportunities, stockholder distributions or other purposes; and

- we may not be able to refinance any debt that matures prior to the maturity (or realization) of an underlying investment it was used to finance on favorable terms or at all.

There can be no assurance that a leveraging strategy will be successful and may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.

***Our master repurchase agreements impose, and additional lending facilities may impose, restrictive covenants, which would restrict our flexibility to determine our operating policies and investment strategy.***

We borrow funds under master repurchase agreements with various counterparties. The documents that govern these master repurchase agreements and the related guarantees contain, and additional lending facilities may contain, customary affirmative and negative covenants, including financial covenants applicable to us that may restrict our flexibility to determine our operating policies and investment strategy. In particular, our master repurchase agreements require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would otherwise choose, which could reduce our return on assets. If we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly. In addition, lenders may require that our Manager or one or more of our Manager s executives continue to serve in such capacity. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights in our other debt facilities. Further, this could also make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT for U.S. federal income tax purposes.

***Our master repurchase agreements require, and bank credit facilities, repurchase agreements or other financing that we may use in the future to finance our assets may require, us to provide additional collateral or pay down debt.***

Our master repurchase agreements with various counterparties, any bank credit facilities (including term loans and revolving facilities), and additional repurchase agreements or other financing we may enter into in the future, would involve the risk that the market value of the assets pledged or sold by us to the provider of the financing may decline in value, in which case the lender or counterparty may require us to provide additional collateral or lead to margin calls that may require us to repay all or a portion of the funds advanced. We may not have the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources including by selling assets at a time when we might not otherwise choose to do so, which we may not be able to achieve on favorable terms or at all. Posting additional margin would reduce our cash available to make other, higher yielding investments (thereby decreasing our return on equity). If we cannot meet these requirements, the lender or counterparty could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from it, which could materially and adversely affect our financial condition and ability to implement our investment strategy. In the case of repurchase transactions, if the value of the underlying security has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will likely incur a loss on our repurchase transactions. In addition, if a lender or counterparty files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to financing and increase our cost of capital.

***Our use of leverage may create a mismatch with the duration and index of the investments that we are financing.***

We intend to structure our leverage such that we minimize the difference between the term of our investments and the leverage we use to finance such investments. In the event that our leverage is for a shorter term than the financed investment, we may not be able to extend or find appropriate replacement leverage and that would have an adverse impact on our liquidity and our returns. In the event that our leverage is for a longer term than the financed investment, we may not be able to repay such leverage or replace the financed investment with an optimal substitute or at all, which will negatively impact our desired leveraged returns.

We attempt to structure our leverage such that we minimize the difference between the index of our investments and the index of our leverage financing floating rate investments with floating rate leverage and fixed rate investments with fixed rate leverage. If such a product is not available to us from our lenders on reasonable terms, we may use hedging instruments to effectively create such a match. For example, in the case of fixed rate investments, we may finance such an investment with floating rate leverage, but effectively convert all or a portion of the attendant leverage to fixed rate using hedging strategies.

Our attempts to mitigate such risk are subject to factors outside of our control, such as the availability to us of favorable financing and hedging options, which is subject to a variety of factors, of which duration and term matching are only two. The risks of a duration mismatch are magnified by the potential for the extension of loans in order to maximize the likelihood and magnitude of their recovery value in the event the loans experience credit or performance challenges. Employment of this asset management practice would effectively extend the duration of our investments, while our liabilities have set maturity dates.

***Interest rate fluctuations could increase our financing costs, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.***

To the extent that our financing costs will be determined by reference to floating rates, such as LIBOR or a Treasury index, the amount of such costs will depend on the level and movement of interest rates. In a period of rising interest rates, our interest expense on floating rate debt would increase, while any additional interest income we earn on our floating rate investments may be subject to caps and may not compensate for such increase in interest expense. At the same time, the interest income we earn on our fixed rate investments would not change, the duration and weighted average life of our fixed rate investments would increase and the market value of our fixed rate investments would decrease. Similarly, in a period of declining interest rates, our interest income on floating rate investments would decrease, while any decrease in the interest we are charged on our floating rate debt may be subject to floors and may not compensate for such decrease in interest income and interest we are charged on our fixed rate debt would not change. Any such scenario could adversely affect our results of operations and financial condition.

***Our loans and investments may be subject to fluctuations in interest rates that may not be adequately protected, or protected at all, by our hedging strategies.***

Our investments include loans with both floating interest rates and fixed interest rates. Floating rate investments earn interest at rates that adjust from time to time (typically monthly) based upon an index (typically one-month LIBOR). These floating rate loans are insulated from changes in value specifically due to changes in interest rates; however, the coupons they earn fluctuate based upon interest rates (again, typically one-month LIBOR) and, in a declining and/or low interest rate environment, these loans will earn lower rates of interest and this will impact our operating performance. Fixed interest rate investments, however, do not have adjusting interest rates and the relative value of the fixed cash flows from these investments will decrease as prevailing interest rates rise or increase as prevailing interest rates fall, causing potentially significant changes in value. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. We believe that no strategy can completely insulate us from the risks associated with interest rate changes and there is a risk that they may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, leverage risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us against the foregoing risks.

Accounting for derivatives under GAAP is extremely complicated. Any failure by us to account for our derivatives properly in accordance with GAAP on our consolidated financial statements could adversely affect our earnings. In particular, cash flow hedges which are not perfectly correlated (and appropriately designated and/or documented as such) with variable rate financing will impact our reported income as gains and losses on the ineffective portion of such hedges.

***We depend on repurchase agreements and may depend on bank credit facilities, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements and other sources of financing to execute our business plan, and our inability to access funding could have a material adverse effect on our results of operations, financial condition and business.***

Our ability to fund our investments may be impacted by our ability to secure bank credit facilities (including term loans and revolving facilities), warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements and additional repurchase agreements on acceptable terms. We may also rely on short-term financing that would be especially exposed to changes in availability. Our access to sources of financing will depend upon a number of factors, over which we have little or no control, including:

- general economic or market conditions;
- the market s view of the quality of our assets;
- the market s perception of our growth potential;

our current and potential future earnings and cash distributions; and

the market price of the shares of our class A common stock.

We will need to periodically access the capital markets to raise cash to fund new investments. Unfavorable economic or capital market conditions, such as the severe dislocation in the capital and credit markets that existed during the recent economic recession, may increase our funding costs, limit our access to the capital markets or could result in a decision by our potential lenders not to extend credit. An inability to successfully

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access the capital markets could limit our ability to grow our business and fully execute our business strategy and could decrease our earnings and liquidity. In addition, any dislocation or weakness in the capital and credit markets, such as the dislocation that existed during the recent economic recession, could adversely affect our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing. In addition, as regulatory capital requirements imposed on our lenders are increased, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. No assurance can be given that we will be able to obtain any additional financing on favorable terms or at all.

***Any warehouse facilities that we may obtain in the future may limit our ability to originate or acquire assets, and we may incur losses if the collateral is liquidated.***

We may utilize, if available, warehouse facilities pursuant to which we would accumulate loans in anticipation of a securitization or other financing, which assets would be pledged as collateral for such facilities until the securitization or other transaction is consummated. In order to borrow funds to originate or acquire assets under any future warehouse facilities, we expect that our lenders thereunder would have the right to review the potential assets for which we are seeking financing. We may be unable to obtain the consent of a lender to originate or acquire assets that we believe would be beneficial to us and we may be unable to obtain alternate financing for such assets. In addition, no assurance can be given that a securitization or other financing would be consummated with respect to the assets being warehoused. If the securitization or other financing is not consummated, the lender could demand repayment of the facility, and in the event that we were unable to timely repay, could liquidate the warehoused collateral and we would then have to pay any amount by which the original purchase price of the collateral assets exceeds its sale price, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the securitization or other financing is consummated, if any of the warehoused collateral is sold before the completion, we would have to bear any resulting loss on the sale.

***We may use securitizations to finance our loans and investments, which may expose us to risks that could result in losses.***

We may, to the extent consistent with the REIT requirements, seek to securitize certain of our portfolio investments to generate cash for funding new investments. This would involve creating a special-purpose vehicle, contributing a pool of our assets to the entity, and selling interests in the entity on a non-recourse basis to purchasers (whom we would expect to be willing to accept a lower interest rate to invest in investment-grade loan pools). We would expect to retain all or a portion of the equity in the securitized pool of portfolio investments. We may use short-term facilities to finance the acquisition of securities until a sufficient quantity of securities had been accumulated, at which time we would refinance these facilities through a securitization, such as a CMBS, or issuance of CLOs, or the private placement of loan participations or other long-term financing. If we were to employ this strategy, we would be subject to the risk that we would not be able to acquire, during the period that our short-term facilities are available, a sufficient amount of eligible securities to maximize the efficiency of a CMBS, CLO or private placement issuance. We also would be subject to the risk that we would not be able to obtain short-term credit facilities or would not be able to renew any short-term credit facilities after they expire should we find it necessary to extend our short-term credit facilities to allow more time to seek and acquire the necessary eligible securities for a long-term financing. The inability to consummate securitizations of our portfolio to finance our investments on a long-term basis could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to grow our business. Additionally, the securitization of our portfolio might magnify our exposure to losses because any equity interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. The inability to securitize our portfolio may hurt our performance and our ability to grow our business. At the same time, the securitization of our portfolio investments might expose us to losses, as the residual portfolio investments in which we do not sell interests will tend to be riskier and more likely to generate losses.

***We may be subject to losses arising from current and future guarantees of debt and contingent obligations of our subsidiaries or joint venture or co-investment partners.***

We currently guarantee certain obligations of our subsidiaries under the various master repurchase agreements that provide for significant aggregate borrowings and we may in the future guarantee the performance of additional subsidiaries obligations, including, but not limited to, additional repurchase agreements, derivative agreements and unsecured indebtedness. In the future we may also agree to guarantee indebtedness incurred by a joint venture or co-investment partner. Such a guarantee may be on a joint and several basis with such joint venture or co-investment partner, in which case we may be liable in the event such partner defaults on its guarantee obligation. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations and there is no assurance that we will have sufficient capital to cover any such losses.

***We are subject to counterparty risk associated with our debt obligations.***

Our counterparties for critical financial relationships may include both domestic and international financial institutions. Many of them have been severely impacted by the recent credit market turmoil and have been experiencing financial pressures. In the past, certain of our counterparties have filed for bankruptcy, leading to financial losses for us.

***Hedging may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.***

Subject to maintaining our qualification as a REIT, we may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates and fluctuations in currencies. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate and currency hedging may fail to protect or could adversely affect us because, among other things:

- interest, currency and/or credit hedging can be expensive and may result in us receiving less interest income;

- available interest or currency rate hedges may not correspond directly with the interest rate or currency risk for which protection is sought;

- due to a credit loss, prepayment or asset sale, the duration of the hedge may not match the duration of the related asset or liability;

- the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Internal Revenue Code or that are done through a taxable REIT subsidiary, or TRS) to offset interest rate losses is limited by U.S. federal income tax provisions governing REITs;

- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;

- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay;

- we may fail to recalculate, readjust and execute hedges in an efficient manner; and

- legal, tax and regulatory changes could occur and may adversely affect our ability to pursue our hedging strategies and/or increase the costs of implementing such strategies.

Any hedging activity in which we engage may materially and adversely affect our results of operations and cash flows. Therefore, while we may enter into such transactions seeking to reduce risks, unanticipated changes in interest rates, credit spreads or currencies may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

In addition, some hedging instruments involve risk because they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, we cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses. In addition, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions, and the business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in its default, which may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price.

***We are subject to counterparty risk associated with our hedging activities.***

We are subject to credit risk with respect to the counterparties to derivative contracts (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments). If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, we may experience significant delays in obtaining any recovery under the derivative contract in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If we are owed this fair market value in the termination of the derivative transaction and its claim is unsecured, we will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. We may obtain only a limited recovery or may obtain no recovery in such circumstances. Counterparty risk with respect to certain exchange-traded and over-the-counter derivatives may be further complicated by recently enacted U.S. financial reform legislation.

***We may enter into hedging transactions that could expose us to contingent liabilities in the future.***

Subject to maintaining our qualification as a REIT, part of our investment strategy may involve entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely affect our results of operations and financial condition.

***We may fail to qualify for, or choose not to elect, hedge accounting treatment.***

We intend to record derivative and hedging transactions in accordance with FASB ASC 815, Derivatives and Hedging. Under these standards, we may fail to qualify for, or choose not to elect, hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the FASB ASC 815 definition of a derivative (such as short sales), we fail to satisfy FASB ASC 815 hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for, or choose not to elect, hedge accounting treatment, our operating results may suffer because losses on the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item.

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***If we enter into certain hedging transactions or otherwise invest in certain derivative instruments, failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements which could materially adversely affect our business and financial condition.***

Rules under the Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010, or Dodd-Frank Act, establish a comprehensive new regulatory framework for derivative contracts commonly referred to as swaps. Under this regulatory framework, mortgage real estate investment trusts, or mREITs, that trade in commodity interest positions (including swaps) are considered commodity pools and the operators of such mREITs would be considered commodity pool operators, or CPOs. Absent relief, a CPO must register with the U.S. Commodity Futures Trading Commission, or CFTC, and become a member of the National Futures Association, or NFA, which requires compliance with NFA s rules and renders such CPO subject to regulation by the CFTC, including with respect to disclosure, reporting, recordkeeping and business conduct. We may from time to time, directly or indirectly, invest in instruments that meet the definition of swap under the new rules which may subject us to oversight by the CFTC. Our board of directors has appointed our Manager to act as our CPO in the event we are deemed a commodity pool.

In the event that we invest in commodity interests, absent relief, our Manager would be required to register as a CPO. Our Manager may therefore seek and rely on no-action relief from registration with the CFTC or claim an exemption from registration as a CPO with the CFTC, including pursuant to CFTC Rule 4.13(a)(3). CFTC Rule 4.13(a)(3) requires that, among other things, the pool s trading in commodity interest positions (including both hedging and speculative positions, and positions in security futures) is limited so that either (i) no more than 5% of the liquidation value of the pool s portfolio is used as initial margin, premiums and required minimum security deposits to establish such positions, or (ii) the aggregate net notional value of the pool s trading in such positions does not exceed 100% of the pool s liquidation value. Therefore, unlike a registered CPO, we will not be required to provide prospective investors with a CFTC compliant disclosure document, nor will we be required to provide investors with periodic account statements or certified annual reports that satisfy the requirements of CFTC rules applicable to registered CPOs, in connection with any offerings of shares.

As an alternative to the exemption from registration, our Manager may register as a CPO with the CFTC and avail itself of certain disclosure, reporting and record-keeping relief under CFTC Rule 4.7.

The CFTC has substantial enforcement power with respect to violations of the laws over which it has jurisdiction, including their anti-fraud and anti-manipulation provisions. Among other things, the CFTC may suspend or revoke the registration of a person who fails to comply, prohibit such a person from trading or doing business with registered entities, impose civil money penalties, require restitution and seek fines or imprisonment for criminal violations. Additionally, a private right of action exists against those who violate the laws over which the CFTC has jurisdiction or who willfully aid, abet, counsel, induce or procure a violation of those laws. In the event we fail to receive interpretive relief from the CFTC on this matter, are unable to claim an exemption from registration and fail to comply with the regulatory requirements of these new rules, we may be unable to use certain types of hedging instruments or we may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could adversely affect our results of operations and financial condition.

## Risks Related to Our Relationship with Our Manager and its Affiliates

***We depend on our Manager and its personnel for our success. We may not find a suitable replacement for our Manager if the Management Agreement is terminated, or if key personnel leave the employment of our Manager or Blackstone or otherwise become unavailable to us.***

We are externally managed and advised by our Manager, an affiliate of Blackstone. We have no employees and all of our officers are employees of Blackstone or its affiliates. We are completely reliant on our Manager, which has significant discretion as to the implementation of our investment and operating policies and strategies.

Our success will depend to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the executive officers and key personnel of our Manager and its affiliates. Our Manager is managed by senior professionals of Blackstone. These individuals will evaluate, negotiate, execute and monitor our investments and advise us regarding maintenance of our REIT status and exemption from regulation under the Investment Company Act; therefore, our success will depend on their continued service with our Manager and its affiliates. The departure of one or more of the executive officers or key personnel from our Manager and its affiliates could have a material adverse effect on our performance.

In addition, we can offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager s officers and key personnel. The initial term of the Management Agreement only extends until December 19, 2015. Thereafter, the Management Agreement will be renewable for one-year terms; provided, however, that our Manager may terminate the Management Agreement annually upon 180 days prior notice. If the Management Agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan. Furthermore, we may incur certain costs in connection with a termination of the Management Agreement.

***The personnel of our Manager, as our external manager, are not required to dedicate a specific portion of their time to the management of our business.***

Neither our Manager nor any other Blackstone affiliate is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our Manager or its affiliates will dedicate to the management of our business and our Manager may have conflicts in allocating its time, resources and services among our business and any other investment vehicles and accounts our Manager (or its personnel) may manage. Each of our officers is also an employee of our Manager or another Blackstone affiliate, who has now or may be expected to have significant responsibilities for other investment vehicles currently managed by Blackstone and its affiliates. Consequently, we may not receive the level of support and assistance that we otherwise might receive if we were internally managed. Our Manager and its affiliates are not restricted from entering into other investment advisory relationships or from engaging in other business activities.

***Our Manager manages our portfolio pursuant to very broad investment guidelines and is not required to seek the approval of our board of directors for each investment, financing, asset allocation or hedging decision made by it, which may result in our making riskier loans and investments and which could adversely affect our results of operations and financial condition.***

Our Manager is authorized to follow very broad investment guidelines that provide it with broad discretion in investment, financing, asset allocation and hedging decisions. Our board of directors will periodically review our investment guidelines and our investment portfolio but will not, and will not be required to, review and approve in advance all of our proposed investments or the Manager s financing, asset allocation or hedging decisions. In addition, in conducting periodic reviews, our directors may rely primarily on information provided to them by our Manager or its affiliates. Subject to maintaining our REIT qualification and our exclusion from regulation under the Investment Company Act, our Manager has significant latitude within the broad investment guidelines in determining the types of investments it makes for us, and how such investments are financing or hedged, which could result in investment returns that are substantially below expectations or that result in losses, which could adversely affect our results of operations and financial condition.

***Our Manager s fee structure may not create proper incentives or may induce our Manager and its affiliates to make certain investments, including speculative investments, which increase the risk of our investment portfolio.***

We will pay our Manager base management fees regardless of the performance of our portfolio. Our Manager s entitlement to base management fees, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. Because the base management fees are also based in part on our outstanding equity, our Manager may also be incentivized to advance strategies that increase our equity, and there may be circumstances where increasing our equity will not optimize the returns for our stockholders. Consequently, we may be required to pay our Manager base management fees in a particular period despite experiencing a net loss or a decline in the value of our portfolio during that period.

In addition, our Manager has the ability to earn incentive fees each quarter based on our excess earnings, which may create an incentive for our Manager to invest in assets with higher yield potential, which are generally riskier or more speculative, or sell an asset prematurely for a gain, in an effort to increase our short-term net income and thereby increase the incentive fees to which it is entitled. If our interests and those of our Manager are not aligned, the execution of our business plan and our results of operations could be adversely affected, which could adversely affect our results of operations and financial condition.

***We may compete with existing and future private and public investment vehicles established and/or managed by Blackstone or its affiliates, which may present various conflicts of interest that restrict our ability to pursue certain investment opportunities or take other actions that are beneficial to our business and result in decisions that are not in the best interests of our stockholders.***

We are subject to conflicts of interest arising out of our relationship with Blackstone, including our Manager and its affiliates. Blackstone has appointed two nominees to serve on our board of directors (one of whom serves as executive chairman of our board of directors), and Stephen D. Plavin, our chief executive officer and a member of our board, Paul D. Quinlan, our chief financial officer and our other executive officers are also executives of Blackstone and/or one or more of its affiliates, and we are managed by our Manager, a Blackstone affiliate. There is no guarantee that the policies and procedures adopted by us, the terms and conditions of the Management Agreement or the policies and procedures adopted by our Manager, Blackstone and their affiliates, will enable us to identify, adequately address or mitigate these conflicts of interest.

Some examples of conflicts of interest that may arise by virtue of our relationship with our Manager and Blackstone include:

*Broad and Wide-Ranging Activities*. Our Manager, Blackstone and their affiliates engage in a broad spectrum of activities, including a broad range of activities relating to investments in the real estate industry and have invested or committed billions of dollars in capital through various investment funds, managed accounts and other vehicles affiliated with Blackstone. In the ordinary course of their business activities, our Manager, Blackstone and their affiliates may engage in activities where the interests of certain divisions of Blackstone and its affiliates, including our Manager, or the interests of their clients may conflict with the interests of our stockholders. Certain of these divisions and entities affiliated with our Manager have or may have an investment strategy similar to our investment strategy and therefore may compete with us. In particular, Blackstone Real Estate Debt Strategies, or BREDS, part of Blackstone s real estate investment business, seeks to invest in a broad range of real estate-related debt investments via several different investment funds, managed accounts and other vehicles.

*Blackstone s Policies and Procedures*. Specified policies and procedures implemented by Blackstone and its affiliates, including our Manager, to mitigate potential conflicts of interest and address certain regulatory requirements and contractual restrictions may reduce the advantages across Blackstone s and its affiliates various businesses that Blackstone expects to draw on for purposes of pursuing attractive investment opportunities. Because Blackstone has many different asset management, advisory and other businesses, it is subject to a number of actual and potential conflicts of interest, greater regulatory oversight and more legal and contractual restrictions than that to which it would otherwise be subject if it had just one line of business. In addressing these conflicts and regulatory, legal and contractual requirements across its various businesses, Blackstone has implemented certain policies and procedures (e.g., information walls) that may reduce the benefits that Blackstone expects to utilize for purposes of identifying and managing its investments. For example, Blackstone may come into possession of material non-public information with respect to companies in which our Manager may be considering making an investment in companies that are Blackstone s and its affiliates advisory clients. As a consequence, that information, which could be of benefit to our Manager, might become restricted to those other businesses and otherwise be unavailable to our Manager, and could also restrict our Manager s activities. Additionally, the terms of confidentiality or other agreements with or related to companies in which any investment vehicle of Blackstone has or has considered making an investment or which is otherwise an advisory client of Blackstone and its affiliates may restrict or otherwise limit the ability of Blackstone or its affiliates, including our Manager, to engage in businesses or activities competitive with such companies.

*Allocation of Investment Opportunities*. Certain inherent conflicts of interest arise from the fact that Blackstone and its affiliates, including our Manager, will provide investment management and other services both to us and to any other person or entity, whether or not the investment objectives or policies of any such other person or entity are similar to ours, including, without limitation, the sponsoring, closing and/or managing of any investment funds, vehicles, accounts, products and/or other similar arrangements sponsored, advised, and/or managed by Blackstone or its affiliates, whether currently in existence or subsequently established (in each case, including any related successor funds, alternative vehicles, supplemental capital vehicles, co-investment vehicles and other entities formed in connection with Blackstone or its affiliates side-by-side or additional general partner investments with respect thereto), which we refer to as the Blackstone Funds. The respective investment guidelines and programs of our business and the Blackstone Funds may or may not overlap, in whole or in part, and if there is any such overlap investment opportunities will be allocated between us and the Blackstone Funds in a manner that may result in fewer investment opportunities being allocated to us than would have otherwise been the case in the absence of such Blackstone Funds. In particular, while the primary investment strategies of Blackstone Mortgage Trust and Blackstone s latest flagship successor real estate debt fund, Blackstone Real Estate Debt Strategies II, L.P., or BREDS II, are materially different in that Blackstone Mortgage Trust will generally seek to invest primarily in senior mortgage loans and other similar interests and BREDS II will generally seek to invest primarily in junior mortgage debt (e.g., B Notes) and mezzanine debt, a significant portion of the capital of BREDS II may nonetheless be invested in investments that would also be appropriate for Blackstone Mortgage Trust. Our Manager, Blackstone or their affiliates may also give advice to the Blackstone Funds that may differ from advice given to us even though their investment objectives may be the same or similar to ours.

While our Manager will seek to manage potential conflicts of interest in a fair and equitable manner in accordance with the investment allocation policy and procedures of our Manager and/or its affiliates with respect to the allocation of investment opportunities among us and one or more Blackstone Funds (as the same may be amended, updated or revised from time to time without prior notice from our Manager or our consent), which we refer to as the Allocation Policy, and as required pursuant to the Management Agreement, the portfolio strategies employed by our Manager, Blackstone or their affiliates in managing the Blackstone Funds could conflict with the strategies employed by our Manager in managing our business and may adversely affect the marketability, exit strategy, prices and availability of the securities and instruments in which we invest. Conversely, participation in specific investment opportunities may be appropriate, at times, for both us and the Blackstone Funds. Our Manager has an investment allocation policy in place which provides that investment opportunities falling within the shared investment objectives of our business and the Blackstone Funds will generally be allocated on a basis that our Manager and applicable Blackstone affiliates determine to be fair and reasonable in accordance with the Allocation Policy, subject to legal, tax, regulatory, accounting and other considerations and taking into account a variety of factors. Our Manager is entitled to amend the Allocation Policy at any time without prior notice or our consent.

*Investments in Different Levels or Classes of an Issuer s Securities*. From time to time, we and the Blackstone Funds may make investments at different levels of an issuer s or borrower s capital structure (e.g., an investment by a Blackstone Fund in an equity or mezzanine interest with respect to the same portfolio entity in which we own a debt interest or vice versa) or otherwise in different classes of the same issuer s securities. We may make investments that are senior or junior to, or have rights and interests different from or adverse to, the investments made by the Blackstone Funds. Such investments may conflict with the interests of such Blackstone Funds in related investments, and the potential for any such conflicts of interests may be heightened in the event of a default or restructuring of any such investments. Our Management Agreement requires our Manager to keep our board of directors reasonably informed on a periodic basis in connection with the foregoing, including with respect to transactions that involve investments at different levels of an issuer s or borrower s capital structure, as to which our Manager has agreed to provide our board of directors with quarterly updates. We currently hold mortgage and mezzanine loans and other investments in which Blackstone affiliates have interests in the collateral securing or backing such investments. While Blackstone will seek to resolve any such conflicts in a fair and equitable manner in accordance with the Allocation Policy and its prevailing policies and procedures with respect to conflicts resolution among the Blackstone Funds generally, such transactions are not required to be presented to our board of directors for approval, and there can be no assurance that any conflicts will be resolved in our favor.

*Pursuit of Differing Strategies*. At times, the investment professionals employed by our Manager or its affiliates and other investment vehicles affiliated with our Manager and/or Blackstone may determine that an investment opportunity may be appropriate for only some of the accounts, clients, entities, funds and/or investment companies for which he or she exercises investment responsibility, or may decide that certain of the accounts, clients, entities, funds and/or investment companies should take differing positions with respect to a particular security. In these cases, the investment professionals may place separate transactions for one or more accounts, clients, entities, funds and/or investment companies which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other accounts, clients, entities, funds and/or investment companies. For example, an investment professional may determine that it would be in the interest of another account to sell a security that we hold long, potentially resulting in a decrease in the market value of the security held by us.

*Variation in Financial and Other Benefits*. A conflict of interest arises where the financial or other benefits available to our Manager or its affiliates differ among the accounts, clients, entities, funds and/or investment companies that it manages. If the amount or structure of the base management fee, incentive fee and/or our Manager s compensation differs among accounts, clients, entities, funds and/or investment companies (such as where certain funds or accounts pay higher base management fees, incentive fees, performance-based management fees or other fees), our Manager might be motivated to help certain accounts, clients, entities, funds and/or investment companies over others. Similarly, the desire to maintain assets under management or to enhance our Manager s performance record or to derive other rewards, financial or otherwise, could influence our Manager in affording preferential treatment to those accounts, clients, entities, funds and/or investment companies that could most significantly benefit our Manager. Our Manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such accounts, clients, entities, funds and/or investment companies. Additionally, our Manager might be motivated to favor accounts, clients, entities, funds and/or investment companies in which it has an ownership interest or in which Blackstone and/or its affiliates have ownership interests. Conversely, if an investment professional at our Manager or its affiliates does not personally hold an investment in the fund but holds investments in other Blackstone affiliated vehicles, such investment professional s conflicts of interest with respect to us may be more acute.

*Investment Banking, Underwriting Advisory and Other Relationships*. As part of its regular business, Blackstone provides a broad range of investment banking, underwriting, advisory, and other services. In the regular course of its investment banking and advisory businesses, Blackstone represents potential purchasers, sellers and other involved parties, including corporations, financial buyers, management, stockholders and institutions, with respect to transactions that could give rise to investments that are suitable for us. Blackstone will be under no obligation to decline any such engagements in order to make an investment opportunity available to us. In connection with its investment banking, advisory and other businesses, Blackstone may come into possession of information that limits its ability to engage in potential transactions. Our activities may be constrained as a result of the inability of Blackstone personnel to use such information. For example, employees of Blackstone not serving as employees of our Manager or its affiliates may be prohibited by law or contract from sharing information with members of our Manager s investment team. Additionally, there may be circumstances in which one or more of certain individuals associated with Blackstone will be precluded from providing services to our Manager because of certain confidential information available to those individuals or to other parts of Blackstone. In certain sell-side assignments, the seller may permit Blackstone to act as a participant in such transaction, which would raise conflicts of interest inherent in such a situation. In addition, in connection with selling investments by way of a public offering, a Blackstone broker-dealer may act as the managing underwriter or a member of the underwriting syndicate on a firm commitment basis and purchase securities on that basis. Blackstone may retain any commissions, remuneration, or other profits and receive compensation from such underwriting activities, which have the potential to create conflicts of interest. Blackstone may also participate in underwriting syndicates from time to time with respect to us or portfolio companies of Blackstone Funds, or may otherwise be involved in the private placement of debt or equity securities issued by us or such portfolio companies, or otherwise in arranging financings with respect thereto. Subject to applicable law, Blackstone may receive underwriting fees, placement commissions, or other compensation with respect to such activities, which are not required to be shared with us or our stockholders. Where Blackstone serves as underwriter with respect to a portfolio company s securities, we or the applicable Blackstone fund holding such securities may be subject to a lock-up period following the offering under applicable regulations during which time our ability to sell any securities that we continue to hold is restricted. This may prejudice our ability to dispose of such securities at an opportune time.

Blackstone has long-term relationships with a significant number of corporations and their senior management. In determining whether to invest in a particular transaction on our behalf, our Manager may consider those relationships (subject to its obligations under the Management Agreement), which may result in certain transactions that our Manager will not undertake on our behalf in view of such relationships.

Blackstone and its affiliates may represent creditors or debtors in proceedings under Chapter 11 of the Bankruptcy Code or prior to such filings. From time to time Blackstone and its affiliates may serve as advisor to creditor or equity committees. This involvement, for which Blackstone and its affiliates may be compensated, may limit or preclude the flexibility that we may otherwise have to participate in restructurings.

*Service Providers*. Our service providers (including lenders, brokers, attorneys, and investment banking firms) may be sources of investment opportunities, counterparties therein or advisors with respect thereto. This may influence our Manager in deciding whether to select such a service provider. In addition, in instances where multiple Blackstone businesses may be exploring a potential individual investment, certain of these service providers may choose to be engaged by other Blackstone affiliates rather than us.

*Material, Non-Public Information*. We, directly or through Blackstone, our Manager or certain of their respective affiliates may come into possession of material non-public information with respect to an issuer in which we have invested or may invest. Should this occur, our Manager may be restricted from buying or selling securities, derivatives or loans of the issuer on our behalf until such time as the information becomes public or is no longer deemed material. Disclosure of such information to the personnel responsible for management of our business may be on a need-to-know basis only, and we may not be free to act upon any such information. Therefore, we and/or our Manager may not have access to material non-public information in the possession of Blackstone which might be relevant to an investment decision to be made by our Manager on our behalf, and our Manager may initiate a transaction or purchase or sell an investment which, if such information had been known to it, may not have been undertaken. Due to these restrictions, our Manager may not be able to initiate a transaction on our behalf that it otherwise might have initiated and may not be able to purchase or sell an investment that it otherwise might have purchased or sold, which could negatively affect our operations.

*Possible Future Activities*. Our Manager and its affiliates may expand the range of services that they provide over time. Except as and to the extent expressly provided in the Management Agreement, our Manager and its affiliates will not be restricted in the scope of its business or in the performance of any such services (whether now offered or undertaken in the future) even if such activities could give rise to conflicts of interest, and whether or not such conflicts are described herein. Our Manager, Blackstone and their affiliates continue to develop relationships with a significant number of companies, financial sponsors and their senior managers, including relationships with clients who may hold or may have held investments similar to those intended to be made by us. These clients may themselves represent appropriate investment opportunities for us or may compete with us for investment opportunities.

*Transactions with Blackstone Funds*. From time to time, we may enter into purchase and sale transactions with Blackstone Funds. Such transactions will be conducted in accordance with, and subject to, the terms and conditions of the Management Agreement (including the requirement that sales to or acquisitions of investments from Blackstone, any Blackstone Fund or any of their affiliates be approved in advance by a majority of our independent directors) and our code of business conduct and ethics and applicable laws and regulations.

*Loan Refinancings*. We may from time to time seek to participate in investments relating to the refinancing of loans held by the Blackstone Funds (including the BREDS funds). While it is expected that our participation in connection with such refinancing transactions will be at arms length and on market/contract terms, such transactions may give rise to potential or actual conflicts of interest.

*Other Affiliate Transactions*. Our Manager may on our behalf acquire debt issued by a borrower in which a separate equity or another debt investment has been made by Blackstone or its other affiliates, including the BREDS funds. In connection with investments in which we participate alongside other Blackstone Funds (including the BREDS funds), we may from time to time share certain rights with such other Blackstone Funds relating to such investments for legal, tax, regulatory or other similar reasons, including, in certain instances, certain control-related rights with respect to jointly-held investments. When making any such investments, there may be conflicting interests. There can be no assurance that the return on our investment will be equivalent to or better than the returns obtained by Blackstone or its other affiliates.

Further conflicts could arise once we and Blackstone or its affiliates have made their respective investments. For example, if a company goes into bankruptcy or reorganization, becomes insolvent or otherwise experiences financial distress or is unable to meet its payment obligations or comply with covenants relating to securities held by us or by the Blackstone or its affiliates, Blackstone or its affiliates may have an interest that conflicts with our interests or Blackstone or its affiliates may have information regarding the company that we do not have access to. If additional financing is necessary as a result of financial or other difficulties, it may not be in our best interests to provide such additional financing. If Blackstone or its affiliates were to lose their respective investments as a result of such difficulties, the ability of our Manager to recommend actions in our best interests might be impaired.

***Termination of the Management Agreement would be costly.***

Termination of the Management Agreement without cause will be difficult and costly. Our independent directors will review our Manager s performance annually and, following the initial three-year term, the Management Agreement may be terminated each year upon the affirmative vote of at least two-thirds of our independent directors, based upon a determination that (i) our Manager s performance is unsatisfactory and materially detrimental to us or (ii) the base management fee and incentive fee payable to our Manager are not fair (provided that in this instance, our Manager will be afforded the opportunity to renegotiate the management fee and incentive fees prior to termination). We are required to provide our Manager with 180 days prior notice of any such termination. Additionally, upon such a termination, or if we materially breach the Management Agreement and our Manager terminates the Management Agreement, the Management Agreement provides that we will pay our Manager a termination fee equal to three times the sum of the average annual base management fee and the average annual incentive fee earned during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. These provisions increase the cost to us of terminating the Management Agreement and adversely affect our ability to terminate our Manager without cause.

***Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Our Manager s liability is limited under the Management Agreement and we have agreed to indemnify our Manager against certain liabilities.***

Pursuant to the Management Agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the Management Agreement, our Manager and its affiliates and their respective directors, officers, employees and stockholders are not liable to us, our directors, our stockholders or any subsidiary of ours, or their directors, officers, employees or stockholders for any acts or omissions performed in accordance with and pursuant to the Management Agreement, except by reason of acts or omissions constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the Management Agreement. We have agreed to indemnify our Manager and its affiliates and their respective directors, officers, employees and stockholders with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts or omissions of our Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed or not performed in good faith in accordance with and pursuant to the Management Agreement. As a result, we could experience poor performance or losses for which our Manager would not be liable.

***We do not own the Blackstone name, but we may use it as part of our corporate name pursuant to a trademark license agreement with an affiliate of Blackstone. Use of the name by other parties or the termination of our trademark license agreement may harm our business.***

We have entered into a trademark license agreement, or Trademark License Agreement, with an affiliate of Blackstone pursuant to which it has granted us a fully paid-up, royalty-free, non-exclusive, non-transferable license to use the name Blackstone Mortgage Trust, Inc. and the ticker symbol BXMT . Under this agreement, we have a right to use this name for so long as our Manager (or another affiliate of Blackstone TM L.L.C., or Licensor) serves as our Manager (or another managing entity) and the Manager remains an affiliate of the Licensor under the Trademark License Agreement. The Trademark License Agreement may also be earlier terminated by either party as a result of certain breaches or for convenience upon 90 days prior written notice; provided that upon notification of such termination by us, the Licensor may elect to effect termination of the Trademark License Agreement immediately at any time after 30 days from the date of such notification. The Licensor and its affiliates, such as Blackstone, will retain the right to continue using the Blackstone name. We will further be unable to preclude the Licensor from licensing or transferring the ownership of the Blackstone name to third parties, some of whom may compete with us. Consequently, we will be unable to prevent any damage to goodwill that may occur as a result of the activities of the Licensor, Blackstone or others. Furthermore, in the event that the Trademark License Agreement is terminated, we will be required to, among other things, change our name and NYSE ticker symbol. Any of these events could disrupt our recognition in the market place, damage any goodwill we may have generated and otherwise harm our business.

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## Risks Related to Our Company

***Our investment strategy or guidelines, asset allocation and financing strategy may be changed without stockholder consent.***

Our Manager is authorized to follow broad investment guidelines that have been approved by our board of directors. Those investment guidelines, as well as our financing strategy or hedging policies with respect to investments, originations, acquisitions, growth, operations, indebtedness, capitalization and distributions, may be changed at any time without the consent of our stockholders. This could result in an investment portfolio with a different risk profile. A change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this report. These changes could adversely affect our results of operations and financial condition.

***We must manage our portfolio so that we do not become an investment company that is subject to regulation under the Investment Company Act.***

We conduct our operations so that we avail ourselves of the statutory exclusion provided in Section 3(c)(5)(C) for companies engaged primarily in investment in mortgages and other liens on or interests in real estate. In order to qualify for this exclusion, we must maintain, on the basis of positions taken by the SEC s Division of Investment Management, or the Division, in interpretive and no-action letters, a minimum of 55% of the value of our total assets in mortgage loans and other related assets that are considered mortgages and other liens on and interests in real estate, which we refer to as Qualifying Interests, and a minimum of 80% in Qualifying Interests and real estate-related assets. In the absence of SEC or Division guidance that supports the treatment of other investments as Qualifying Interests, we will treat those other investments appropriately as real estate-related assets or miscellaneous assets depending on the circumstances.

The SEC staff has commenced an advance notice rulemaking initiative, indicating that it is reconsidering its interpretive policy under Section 3(c)(5)(C) and whether to advance rulemaking to define the basis for the exclusion. We cannot predict the outcome of this reconsideration or potential rulemaking initiative and its impact on our ability to rely on the exclusion. To the extent that the SEC or its staff provides more specific guidance regarding any of the matters bearing upon the requirements of Section 3(c)(5)(C) of the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC or its staff could further inhibit our ability to pursue the strategies we have chosen.

Because registration as an investment company would significantly affect our ability to engage in certain transactions or be structured in the manner we currently are, we intend to conduct our business so that we will continue to satisfy the requirements to avoid regulation as an investment company. If we do not meet these requirements, we could be forced to alter our investment portfolios by selling or otherwise disposing of a substantial portion of the assets that do not satisfy the applicable requirements or by acquiring a significant position in assets that are Qualifying Interests. In the past, when required due to the mix of assets in our balance sheet portfolio, and in connection with our reliance on the Section 3(c)(5)(C) exclusion, we have purchased agency residential mortgage-backed securities that represent the entire beneficial interests in the underlying pools of whole residential mortgage loans, which are treated as Qualifying Interests based on Division positions. Such investments may not represent an optimum use of capital when compared to the available investments we and our subsidiaries target pursuant to our investment strategy. These investments present additional risks to us, and these risks are compounded by our inexperience with such investments. We continue to analyze our investments and may acquire other pools of whole loan residential mortgage-backed securities when and if required for compliance purposes. Altering our portfolio in this manner may have an adverse effect on our investments if we are forced to dispose of or acquire assets in an unfavorable market, and may adversely affect our stock price.

If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties, that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company, and that we would be subject to limitations on corporate leverage that would have an adverse impact on our investment returns. In order to comply with provisions that allow us to avoid the consequences of registration under the Investment Company Act, we may need to forego otherwise attractive opportunities and limit the manner in which we conduct our operations. Thus, compliance with the requirements of the Investment Company Act may hinder our ability to operate solely on the basis of maximizing profits.

***Rapid changes in the values of our other real estate-related investments may make it more difficult for us to maintain our qualification as a REIT or exclusion from regulation under the Investment Company Act.***

If the market value or income potential of real estate-related investments declines as a result of increased interest rates, prepayment rates or other factors, we may need to increase our real estate investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exclusion from the Investment Company Act regulation. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets that we may own. We may have to make investment decisions that we otherwise would not make absent the REIT and Investment Company Act considerations.

***Changes in laws or regulations governing our operations, changes in the interpretation thereof or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us or otherwise adversely affect our business.***

The laws and regulations governing our operations, as well as their interpretation, may change from time to time, and new laws and regulations may be enacted. Accordingly, any change in these laws or regulations, changes in their interpretation, or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us or otherwise adversely affect our business. Furthermore, if regulatory capital requirements whether under the Dodd-Frank Act, Basel III, or other regulatory action are imposed on private lenders that provide us with funds, or were to be imposed on us, they or we may be required to limit, or increase the cost of, financing they provide to us or that we provide to others. Among other things, this could potentially increase our financing costs, reduce our ability to originate or acquire loans and reduce our liquidity or require us to sell assets at an inopportune time or price.

In addition, the Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA, expands the scope of U.S. sanctions against Iran and Section 219 of the ITRA amended the Exchange Act to require companies subject to SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain sanctions promulgated by the Office of Foreign Assets Control of the U.S. Department of the Treasury, or Treasury, engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law. Hilton Worldwide, Inc., Travelport Limited and SunGard Data Systems Inc., which may be considered affiliates of Blackstone, and therefore our affiliates, have publicly filed and/or provided to Blackstone the disclosures reproduced on Exhibit 99.1 of this report, which disclosures are hereby incorporated by reference herein. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file with the SEC a notice that such activities have been disclosed in our reports, and the SEC is required to post those notices of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

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***Actions of the U.S. government, including the U.S. Congress, Federal Reserve Board, Treasury and other governmental and regulatory bodies, to stabilize or reform the financial markets, or market response to those actions, may not achieve the intended effect and may adversely affect our business.***

In July 2010, President Obama signed into law the Dodd-Frank Act, which imposes significant investment restrictions and capital requirements on banking entities and other organizations that are significant to U.S. financial stability. For instance, the so-called Volcker Rule provisions of the Dodd-Frank Act impose significant restrictions on the proprietary trading activities of banking entities and on their ability to sponsor or invest in private equity and hedge funds. It also subjects nonbank financial companies that have been designated as systemically important by the Financial Stability Oversight Council to increased capital requirements and quantitative limits for engaging in such activities, as well as consolidated supervision by the Federal Reserve Board. The Dodd-Frank Act also seeks to reform the asset-backed securitization market (including the mortgage-backed securities market) by requiring the retention of a portion of the credit risk inherent in the pool of securitized assets and by imposing additional registration and disclosure requirements. While the full impact of the Dodd-Frank Act cannot be fully assessed, the Dodd-Frank Act s extensive requirements may have a significant effect on the financial markets and may affect the availability or terms of financing from our lender counterparties and the availability or terms of mortgage-backed securities, which may, in turn, have an adverse effect on our business.

In addition, the Federal Reserve Board, Treasury and other governmental and regulatory bodies have taken or are taking other actions to address the global financial crisis. We cannot predict whether or when such actions may occur or what effect, if any, such actions could have on our business, results of operations and financial condition.

***We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our class A common stock and our ability to pay dividends.***

Our business is highly dependent on communications and information systems of Blackstone as well as third party providers of systems, software and information. Any failure or interruption of Blackstone s or such third party s systems or software could cause delays or other problems in our trading or other activities, or provide us with incorrect information upon which we rely to our detriment, each of which could adversely affect our results of operations and financial condition.

***Developments with our CDO financings have negatively impacted our cash flow.***

The terms of CDOs generally provide that the principal amount of investments must exceed the principal balance of the related bonds by a certain amount and that interest income must exceed interest expense by a certain ratio. Certain of our CT CDOs provide that, if defaults, losses, or rating agency downgrades cause a decline in collateral value or cash flow levels, the cash flow otherwise payable to our retained subordinated classes may be redirected to repay classes of CDOs senior to ours until the tests are returned to compliance. We have breached these tests and cash flow has been redirected for our consolidated CDO. Once breached there is no certainty about when or if the cash flow redirection will remedy the tests failure or that cash flow will be restored to our subordinated classes. We currently do not receive cash payments from our consolidated CDO, which has caused a material deterioration in our cash flow available for operations, debt service and debt repayments.

***We may be required to repurchase loans that we have sold or to indemnify holders of our CDOs.***

If any of the loans we originate or acquire, and sell or securitize, through our CT CDOs do not comply with representations and warranties that we make about certain characteristics of the loans, the borrowers and the underlying properties, we may be required to repurchase those loans or replace them with substitute loans. In addition, in the case of loans that we have sold instead of retained, we may be required to indemnify persons for losses or expenses incurred as a result of a breach of a representation or warranty. Repurchased loans typically require a significant allocation of working capital to carry on our books, and our ability to borrow against such assets is limited. Any significant repurchases or indemnification payments could adversely affect our financial condition and operating results.

***We may not have sufficient cash flow to satisfy our tax liability arising from the use of CDO financing and similar financing alternatives.***

Due to the redirection provisions of our CDOs, which reallocate principal and interest otherwise distributable to us to repay senior note holders, assets financed through our CDOs may generate current taxable income without a corresponding cash distribution to us. In order to raise the cash necessary to meet our tax and/or distribution requirements, we may be required to borrow funds, sell a portion of our assets at disadvantageous prices or find other alternatives. In any case, there can be no assurances that we will be able to generate sufficient cash from these endeavors to meet our tax and/or distribution requirements.

***Under the agreements that govern the Blackstone Transactions, we have retained responsibility for certain liabilities of our historical investment management and special servicing business, which could be substantial.***

Under the purchase and sale agreement, dated September 27, 2012, or Purchase Agreement, by and between us and Huskies Acquisition, LLC, or Huskies Acquisition, an affiliate of Blackstone, relating to our December 19, 2012 disposition of our investment management and special servicing business, including CTIMCO, and related private investment fund co-investments, we are required to indemnify Huskies Acquisition and its affiliates for all pre-closing liabilities relating to our prior ownership, management and operation of our historical investment management and special servicing business. The Purchase Agreement does not limit the duration of our obligations to Huskies Acquisition or its affiliates with respect to these indemnities. In the event that the amount of these liabilities were to exceed our expectations, we could be responsible to Huskies Acquisition and its affiliates for substantial indemnification obligations, which could adversely affect our results of operations and financial condition. In addition, claims for indemnification could result in conflicts with our Manager.

***Accounting rules for certain of our transactions are highly complex and involve significant judgment and assumptions. Changes in accounting interpretations or assumptions could impact our ability to timely prepare consolidated financial statements.***

Accounting rules for transfers of financial assets, securitization transactions, consolidation of variable interest entities and other aspects of our operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to our stockholders. Changes in accounting interpretations or assumptions could impact our consolidated financial statements and our ability to timely prepare our consolidated financial statements. Our inability to timely prepare our consolidated financial statements in the future would likely adversely affect our stock price significantly.

## Risks Related to our REIT Status and Certain Other Tax Items

***If we do not maintain our qualification as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability. Our taxable REIT subsidiaries are subject to income tax.***

We expect to continue to operate so as to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only a limited number of judicial or administrative interpretations exist. Notwithstanding the availability of cure provisions in the Internal Revenue Code, various compliance requirements could be failed and could jeopardize our REIT status. Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

we would be taxed as a regular domestic corporation, which under current laws, among other things, means being unable to deduct distributions to stockholders in computing taxable income and being subject to federal income tax on our taxable income at regular corporate income tax rates;

any resulting tax liability could be substantial and could have a material adverse effect on our book value;

unless we were entitled to relief under applicable statutory provisions, we would be required to pay taxes, and thus, our cash available for distribution to stockholders would be reduced for each of the years during which we did not qualify as a REIT and for which we had taxable income; and

we generally would not be eligible to requalify as a REIT for the subsequent four full taxable years.

***REITs, in certain circumstances, may incur tax liabilities that would reduce our cash available for distribution to our stockholders.***

Even if we qualify and maintain our status as a REIT, we may become subject to U.S. federal income taxes and related state and local taxes. For example, net income from the sale of properties that are dealer properties sold by a REIT (a prohibited transaction under the Internal Revenue Code) will be subject to a 100% tax. We may not make sufficient distributions to avoid excise taxes applicable to REITs. Similarly, if we were to fail an income test (and did not lose our REIT status because such failure was due to reasonable cause and not willful neglect) we would be subject to tax on the income that does not meet the income test requirements. We also may decide to retain net capital gain we earn from the sale or other disposition of our investments and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability unless they file U.S. federal income tax returns and thereon seek a refund of such tax. We also may be subject to state and local taxes on our income or property, including franchise, payroll, mortgage recording and transfer taxes, either directly or at the level of the other companies through which we indirectly own our assets, such as our TRSs, which are subject to full U.S. federal, state, local and foreign corporate-level income taxes. Any taxes we pay directly or indirectly will reduce our cash available for distribution to our stockholders.

***Complying with REIT requirements may cause us to forego otherwise attractive opportunities and limit our expansion opportunities.***

In order to qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, our sources of income, the nature of our investments in commercial real estate and related assets, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

***Complying with REIT requirements may force us to liquidate or restructure otherwise attractive investments.***

In order to qualify as a REIT, we must also ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investments in securities cannot include more than 10% of the outstanding voting securities of any one issuer or 10% of the total value of the outstanding securities of any one issuer unless we and such issuer jointly elect for such issuer to be treated as a taxable REIT subsidiary under the Internal Revenue Code. The total value of all of our investments in taxable REIT subsidiaries cannot exceed 25% of the value of our total assets. In addition, no more than 5% of the value of our assets can consist of the securities of any one issuer other than a taxable REIT subsidiary. If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences.

***Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.***

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute gross income for purposes of the 75% or 95% gross income tests that we must satisfy in order to maintain our qualification as a

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REIT. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of these gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a domestic TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

***Complying with REIT requirements may force us to borrow to make distributions to stockholders.***

From time to time, our taxable income may be greater than our cash flow available for distribution to stockholders. If we do not have other funds available in these situations, we may be unable to distribute substantially all of our taxable income as required by the REIT provisions of the Internal Revenue Code. Thus, we could be required to borrow funds, sell a portion of our assets at disadvantageous prices or find another alternative. These options could increase our costs or reduce our equity.

***Our charter does not permit any individual (including certain entities treated as individuals for this purpose) to own more than 9.9% of our class A common stock or of our capital stock, and attempts to acquire our class A common stock or any of our capital stock in excess of this 9.9% limit would not be effective without a prior exemption from those prohibitions by our board of directors.***

For us to qualify as a REIT under the Internal Revenue Code, not more than 50% of the value of our outstanding stock may be owned directly or indirectly, by five or fewer individuals (including certain entities treated as individuals for this purpose) during the last half of a taxable year. For the purpose of preserving our qualification as a REIT for federal income tax purposes, among other purposes, our charter prohibits beneficial or constructive ownership by any individual (including certain entities treated as individuals for this purpose) of more than a certain percentage, currently 9.9%, by value or number of shares, whichever is more restrictive, of the outstanding shares of our class A common stock or our capital stock, which we refer to as the ownership limit. The constructive ownership rules under the Internal Revenue Code and our charter are complex and may cause shares of the outstanding class A common stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual. As a result, the acquisition of less than 9.9% of our outstanding class A common stock or our capital stock by an individual or entity could cause an individual to own constructively in excess of 9.9% of our outstanding class A common stock or our capital stock, respectively, and thus violate the ownership limit. There can be no assurance that our board of directors, as permitted in the charter, will increase, or will not decrease, this ownership limit in the future. Any attempt to own or transfer shares of our class A common stock in excess of the ownership limit without the consent of our board of directors either will result in the shares being transferred by operation of the charter to a charitable trust, and the person who attempted to acquire such excess shares will not have any rights in such excess shares, or in the transfer being void.

The ownership limit may have the effect of precluding a change in control of us by a third party, even if such change in control would be in the best interests of our stockholders or would result in receipt of a premium to the price of our class A common stock (and even if such change in control would not reasonably jeopardize our REIT status). The exemptions to the ownership limit granted to date may limit our board of directors power to increase the ownership limit or grant further exemptions in the future.

***We may choose to make distributions in our own stock, in which case you may be required to pay income taxes without receiving any cash dividends.***

In connection with our qualification as a REIT, we are required to annually distribute to our stockholders at least 90% of our REIT taxable income (which does not equal net income, as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. In order to satisfy this requirement, we may make distributions that are payable in cash and/or shares of our class A common stock (which could account for up to 90% of the aggregate amount of such distributions) at the election of each stockholder. Taxable stockholders receiving such distributions will be required to include the full amount of such distributions as ordinary dividend income to the extent of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. As a result, U.S. stockholders may be required to pay income taxes with respect to such distributions in excess of the cash portion of the distribution received. Accordingly, U.S. stockholders receiving a distribution of our shares may be required to sell shares received in such distribution or may be required to sell other stock or assets owned by them, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a U.S. stockholder sells the stock that it receives as part of the distribution in order to pay this tax, the sales proceeds may be less than the amount it must include in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such distribution, including in respect of all or a portion of such distribution that is payable in stock, by withholding or disposing of part of the shares included in such distribution and using the proceeds of such disposition to satisfy the withholding tax imposed. In addition, if a significant number of our stockholders determine to sell shares of our class A common stock in order to pay taxes owed on dividend income, such sale may put downward pressure on the market price of our class A common stock.

Various tax aspects of such a taxable cash/stock distribution are uncertain and have not yet been addressed by the Internal Revenue Service, or IRS. No assurance can be given that the IRS will not impose requirements in the future with respect to taxable cash/stock distributions, including on a retroactive basis, or assert that the requirements for such taxable cash/stock distributions have not been met.

***Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.***

The maximum tax rate applicable to qualified dividend income payable to certain non-corporate U.S. stockholders has been reduced by legislation to 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our class A common stock.

***We will be dependent on external sources of capital to finance our growth.***

As with other REITs, but unlike corporations generally, our ability to finance our growth must largely be funded by external sources of capital because we generally will have to distribute to our stockholders 90% of our taxable income in order to qualify as a REIT, including taxable income where we do not receive corresponding cash. Our access to external capital will depend upon a number of factors, including general market conditions, the market s perception of our growth potential, our current and potential future earnings, cash distributions and the market price of our class A common stock.

***We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the price of our class A common stock.***

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of U.S. federal income tax laws applicable to investments similar to an investment in shares of our class A common stock. Additional changes to the tax laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your tax advisor with respect to the impact of recent legislation on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. Although REITs generally receive certain tax advantages compared to entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has duties to us and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our company.

***Our investments in certain debt instruments may cause us to recognize phantom income for U.S. federal income tax purposes even though no cash payments have been received on the debt instruments, and certain modifications of such debt by us could cause the modified debt to not qualify as a good REIT asset, thereby jeopardizing our REIT qualification.***

Our taxable income may substantially exceed our net income as determined based on GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may acquire assets, including debt securities requiring us to accrue original issue discount, or OID, or recognize market discount income, that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets referred to as phantom income. In addition, if a borrower with respect to a particular debt instrument encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income with the effect that we will recognize income but will not have a corresponding amount of cash available for distribution to our stockholders.

As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, we may be required to (a) sell assets in adverse market conditions, (b) borrow on unfavorable terms, (c) distribute amounts that would otherwise be used for future acquisitions or used to repay debt, or (d) make a taxable distribution of our shares of class A common stock as part of a distribution in which stockholders may elect to receive shares of class A common stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements.

Moreover, we may acquire distressed debt investments that require subsequent modification by agreement with the borrower. If the amendments to the outstanding debt are significant modifications under the applicable Treasury Regulations, the modified debt may be considered to have been reissued to us in a debt-for-debt taxable exchange with the borrower. In certain circumstances, this deemed reissuance may prevent the modified debt from qualifying as a good REIT asset if the underlying security has declined in value and would cause us to recognize income to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt.

***The taxable mortgage pool rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.***

Securitizations could result in the creation of taxable mortgage pools for federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt disqualified organizations, such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we would be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

***The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.***

We may originate or acquire mezzanine loans, for which the IRS has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. We may originate or acquire mezzanine loans that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan s treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

***The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.***

We have entered into financing arrangements that are structured as sale and repurchase agreements pursuant to which we would nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings which are secured by the assets sold pursuant thereto. We believe that we would be treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

***Liquidation of assets may jeopardize our REIT qualification.***

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

***Our ownership of and relationship with any TRS will be restricted, and a failure to comply with the restrictions would jeopardize our REIT status and may result in the application of a 100% excise tax.***

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT s assets may consist of stock or securities of one or more TRSs. The value of our interests in and thus the amount of assets held in a TRS may also be restricted by our need to qualify for an exclusion from regulation as an investment company under the Investment Company Act. A TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm s-length basis.

Any TRS we own, as a domestic TRS, will pay federal, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. The aggregate value of the TRS stock and securities owned by us should be less than 25% of the value of our total assets (including the TRS stock and securities). Although we plan to monitor our investments in TRSs, there can be no assurance that we will be able to comply with the 25% limitation discussed above or to avoid application of the 100% excise tax discussed above.

## Risks Related to Our Class A Common Stock

***The market price of our class A common stock may fluctuate significantly.***

The capital and credit markets have recently experienced a period of extreme volatility and disruption. The market price and liquidity of the market for shares of our class A common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. Some of the factors that could negatively affect the market price of our class A common stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;
- actual or perceived conflicts of interest with our Manager or other affiliates of Blackstone and individuals, including our executives;
- equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;
- loss of a major funding source;
- actual or anticipated accounting problems;
- publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions to or departures of our Manager s or Blackstone s key personnel;
- speculation in the press or investment community;
- increases in market interest rates, which may lead investors to demand a higher distribution yield for our class A common stock, and would result in increased interest expenses on our debt;

- failure to maintain our REIT qualification or exclusion from Investment Company Act regulation;

- price and volume fluctuations in the overall stock market from time to time;

- general market and economic conditions, and trends including inflationary concerns, and the current state of the credit and capital markets;

- significant volatility in the market price and trading volume of securities of publicly traded REITs or other companies in our sector, including Blackstone Mortgage Trust, which is not necessarily related to the operating performance of these companies;

- changes in law, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to REITs;

- changes in the value of our portfolio;

- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

- operating performance of companies comparable to us;

- short-selling pressure with respect to shares of our class A common stock or REITs generally; and

- uncertainty surrounding the strength of the U.S. economic recovery particularly in light of the recent debt ceiling and budget deficit concerns.

As noted above, market factors unrelated to our performance could also negatively impact the market price of our class A common stock. One of the factors that investors may consider in deciding whether to buy or sell our class A common stock is our distribution rate as a percentage of our stock price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution rate or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and conditions in the capital markets may affect the market value of our class A common stock.

***Because a limited number of stockholders, including affiliates of our Manager and members of our management team, own a substantial number of our shares, in addition to Blackstone s board designation rights, they have the power to make decisions or take actions that may be detrimental to your interests.***

Our directors and executive officers, along with vehicles for the benefit of their families, collectively own and control 257,786 shares of our class A common stock, representing approximately 0.7% of our outstanding shares of class A common stock as of February 11, 2014. Blackstone and certain of its affiliates, with whom three of our directors are associated, owns 2,800,215 shares of our class A common stock, which represented approximately 7.1% of our outstanding class A common stock as of February 11, 2014. By virtue of their voting power, in addition to Blackstone s board designation rights, these stockholders have the power to significantly influence our business and affairs and are able to influence the outcome of matters required to be submitted to stockholders for approval, including the election of our directors, amendments to our charter, mergers or sales of assets. The influence exerted by these stockholders over our business and affairs might not be consistent with the interests of some or all of our stockholders. In addition, the concentration of ownership in our officers or directors or stockholders associated with them may have the effect of delaying or preventing a change in control of our company, including transactions which would be in the best interests of our stockholders and would result in receipt of a premium to the price of our class A common stock (and even if such change in control would not reasonably jeopardize our REIT status), and might negatively affect the market price of our class A common stock.

***Some provisions of our charter and bylaws and Maryland law may deter takeover attempts, which may limit the opportunity of our stockholders to sell their shares at a favorable price.***

Some of the provisions of Maryland law and our charter and bylaws discussed below could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders by providing them with the opportunity to sell their shares at a premium to the then current market price.

*Issuance of Stock Without Stockholder Approval*. Our charter authorizes our board of directors, without stockholder approval, to authorize the issuance of up to 100,000,000 shares of preferred stock and up to 100,000,000 shares of class A common stock. Our charter also authorizes our board of directors, without stockholder approval, to classify or reclassify any unissued shares of our class A common stock and preferred stock into other classes or series of stock and to amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that are authorized by the charter to be issued. Preferred stock may be issued in one or more classes or series, the terms of which may be determined by our board of directors without further action by stockholders. Prior to issuance of any such class or series, our board of directors will set the terms of any such class or series, including the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption. The issuance of any preferred stock could materially adversely affect the rights of holders of our class A common stock and, therefore, could reduce the value of the class A common stock. In addition, specific rights granted to future holders of our preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The power of our board of directors to cause us to issue preferred stock could, in certain circumstances, make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change in control, thereby preserving the current stockholders control.

*Advance Notice Bylaw*. Our bylaws contain advance notice procedures for the introduction by a stockholder of new business and the nomination of directors by a stockholder. These provisions could, in certain circumstances, discourage proxy contests and make it more difficult for you and other stockholders to elect stockholder-nominated directors and to propose and, consequently, approve stockholder proposals opposed by management.

*Maryland Takeover Statutes*. We are subject to the Maryland Business Combination Act, which could delay or prevent an unsolicited takeover of us. The statute substantially restricts the power of third parties who acquire, or seek to acquire, control of us to complete mergers and other business combinations without the approval of our board of directors even if such transaction would be beneficial to stockholders. Business combinations between such a third party acquirer or its affiliate and us are prohibited for five years after the most recent date on which the acquirer becomes an interested stockholder. An interested stockholder is defined as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock. If our board of directors approved in advance the transaction that would otherwise give rise to the acquirer attaining such status, the acquirer would not become an interested stockholder and, as a result, it could enter into a business combination with us. Our board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by it. Even after the lapse of the five-year prohibition period, any business combination with an interested stockholder must be recommended by our board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by stockholders; and

- two-thirds of the votes entitled to be cast by stockholders other than the interested stockholder and affiliates and associates thereof.

The super-majority vote requirements do not apply if the transaction complies with a minimum price and form of consideration requirements prescribed by the statute.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that an interested stockholder becomes an interested stockholder. Our board of directors has exempted any business combination involving a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell, our former chairman of the board, and his family and approved in advance the issuance of shares to W.R. Berkley. In addition, our board of directors has exempted any business combination involving Huskies Acquisition, an affiliate of Blackstone, or its present affiliates or Blackstone and its present and future affiliates; provided, however, that Huskies Acquisition or any of its present affiliates and Blackstone and any of its present or future affiliates may not enter into any business combination with us without the prior approval of at least a majority of the members of our board of directors who are not affiliates or associates of Huskies Acquisition or Blackstone. As a result, these parties may enter into business combinations with us without compliance with the five-year prohibition or the super-majority vote requirements and the other provisions of the statute.

We are also subject to the Maryland Control Share Acquisition Act. With certain exceptions, the Maryland General Corporation Law provides that a holder of control shares of a Maryland corporation acquired in a control share acquisition has no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiring person or by our officers or by our directors who are our employees.

Control shares are voting shares of stock which, if aggregated with all other shares of stock owned or entitled to be voted (except solely by virtue of a revocable proxy) by the acquirer, would entitle the acquirer to exercise voting power in electing directors within one of the specified ranges of voting power. Control shares do not include shares the acquirer is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares subject to certain exceptions. A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions, including an undertaking to pay expenses, may compel our board to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the control shares in question. If no request for a meeting is made, we may present the question at any stockholders meeting.

If voting rights are not approved at a stockholders meeting or if the acquiring person does not deliver the statement required by Maryland law, then, subject to certain conditions and limitations, we may redeem for fair value (determined without regard to the absence of voting rights) any or all of the control shares, except those for which voting rights have previously been approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer may then vote a majority of the shares entitled to vote, then all other stockholders may exercise appraisal rights. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction, nor does it apply to acquisitions approved or exempted by our charter or bylaws. Our bylaws contain a provision exempting the following persons from this statute: (i) a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell and his family; (ii) W.R. Berkley Corporation and any of its controlled affiliates; and (iii) Huskies Acquisition, or any person or entity that was an affiliate of Huskies Acquisition as of September 27, 2012 or by Blackstone or any of its affiliates.

We are also eligible to elect to be subject to the Maryland Unsolicited Takeovers Act, which permits our board of directors, without stockholder approval, to, among other things and notwithstanding any provision in our charter or bylaws, elect on our behalf to classify the terms of directors and to increase the stockholder vote required to remove a director. Such an election would significantly restrict the ability of third parties to wage a proxy fight for control of our board of directors as a means of advancing a takeover offer. If an acquirer were discouraged from offering to acquire us, or prevented from successfully completing a hostile acquisition, you could lose the opportunity to sell your shares at a favorable price.

***Our charter contains provisions that are designed to reduce or eliminate duties of Blackstone and our directors with respect to corporate opportunities and competitive activities.***

Our charter contains provisions designed to reduce or eliminate duties of Blackstone and its affiliates (as such term is defined in the charter), and of our directors or any person our directors control to refrain from competing with us or to present to us business opportunities that otherwise may exist in the absence of such charter provisions. Under our charter, Blackstone and its affiliates and our directors or any person our directors control will not be obligated to present to us opportunities unless those opportunities are expressly offered to such person in his or her capacity as a director or officer of Blackstone Mortgage Trust and those persons will be able to engage in competing activities without any restriction imposed as a result of Blackstone s or its affiliates status as a stockholder or Blackstone s affiliates status as officers or directors of Blackstone Mortgage Trust.

***We have not established a minimum distribution payment level and we cannot assure you of our ability to pay distributions in the future.***

We are generally required to distribute to our stockholders at least 90% of our REIT taxable income each year for us to qualify as a REIT under the Internal Revenue Code, which requirement we currently intend to satisfy through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. Although we intend to make regular quarterly distributions to holders of our class A common stock and we generally intend to pay quarterly distributions in an amount at least equal to our REIT taxable income, we have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this report. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification, applicable law and other factors as our board of directors may deem relevant from time to time. We believe that a change in any one of the following factors could adversely affect our results of operations and impair our ability to pay distributions to our stockholders:

our ability to make profitable investments;

margin calls or other expenses that reduce our cash flow;

defaults in our asset portfolio or decreases in the value of our portfolio; and

the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that the level of any distributions we make to our stockholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect the market price of our class A common stock. We may use our net operating losses, to the extent available, carried forward to offset future REIT taxable income, and therefore reduce our dividend requirements. In addition, some of our distributions may include a return of capital, which would reduce the amount of capital available to operate our business.

In addition, distributions that we make to our stockholders will generally be taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for U.S. federal income tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a stockholder s investment in our class A common stock.

***Investing in our class A common stock may involve a high degree of risk.***

The investments that we make in accordance with our investment objectives may result in a high amount of risk when compared to alternative investment options and volatility or loss of principal. Our investments may be highly speculative and aggressive, and therefore an investment in our class A common stock may not be suitable for someone with lower risk tolerance.

***Future issuances of equity or debt securities, which may include securities that would rank senior to our class A common stock, may adversely affect the market price of the shares of our class A common stock.***

The issuance of additional shares of our class A common stock, including in connection with the conversion of our outstanding 5.25% Convertible Senior Notes due 2018, or other future issuances of our class A common stock or shares of preferred stock or securities convertible or exchangeable into equity securities, may dilute the ownership interest of our existing holders of class A common stock. If we decide to issue debt or equity securities which would rank senior to our class A common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our class A common stock and may result in dilution to owners of our class A common stock. We and, indirectly, our stockholders will bear the cost of issuing and servicing such securities. Because our decision to issue additional equity or debt securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future issuances. Also, we cannot predict the effect, if any, of future sales of our class A common stock, or the availability of shares for future sales, on the market price of our class A common stock. Sales of substantial amounts of class A common stock or the perception that such sales could occur may adversely affect the prevailing market price for the shares of our class A common stock. Thus holders of our class A common stock will bear the risk of our future issuances reducing the market price of our class A common stock and diluting the value of their stock holdings in us.

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**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our principal executive and administrative offices are located in leased space at 345 Park Avenue, 42nd Floor, New York, New York 10154. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

**ITEM 3. LEGAL PROCEEDINGS**

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

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**PART II.**

### ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our class A common stock is listed for trading on the NYSE under the symbol BXMT. The table below sets forth, for the calendar quarters indicated, the reported high and low sale prices for our class A common stock as reported on the NYSE composite transaction tape, and the per share cash dividends declared on our class A common stock. All amounts have been retroactively updated to reflect the one-for-ten reverse stock split which we effected as of May 6, 2013.

| | High | Low | Dividend |
|---|---|---|---|
| **2013** | | | |
| Fourth quarter | $ 28.20 | $ 24.31 | $ 0.45 |
| Third quarter | 26.55 | 23.89 | 0.27 |
| Second quarter | 29.28 | 20.60 | 0.00 |
| First quarter | 29.50 | 18.10 | 0.00 |
| **2012** | | | |
| Fourth quarter | $ 39.60 | $ 16.90 | $ 20.00 |
| Third quarter | 38.50 | 24.90 | 0.00 |
| Second quarter | 40.00 | 23.70 | 0.00 |
| First quarter | 41.80 | 22.00 | 0.00 |

The last reported sale price of our class A common stock on February 11, 2014 as reported on the NYSE composite transaction tape was $28.27. As of February 12, 2014, there were 150 holders of record of our class A common stock. By including persons holding shares in broker accounts under street names, however, we estimate our stockholder base to be approximately 11,700 holders.

During the year ended December 31, 2013, we declared aggregate quarterly dividends of $0.72 per share, all of which represented ordinary income. During 2012, we declared a special dividend of $49.8 million, or $20.00 per share, of which $11.23 represented ordinary income and $8.77 represented return of capital. No dividends were declared during the year ended December 31, 2011. We generally intend to distribute each year substantially all of our taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles, or GAAP) to our stockholders so as to comply with the REIT provisions of the Internal Revenue Code of 1986, as amended.

In addition, our dividend policy remains subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend upon, among other things, our actual results of operations and liquidity. These results and our ability to pay distributions will be affected by various factors, including our taxable income, our financial condition, our maintenance of REIT status, applicable law, and other factors as our board of directors deems relevant. In accordance with Internal Revenue Service guidance, we are required to report the amount of excess inclusion income earned by us. In 2013, we calculated excess inclusion income to be *de minimis*.

**Issuer Purchases of Equity Securities**

We did not repurchase any of our class A common stock during the three months ended December 31, 2013.

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**Equity Compensation Plan Information**

The following table summarizes information, as of December 31, 2013, relating to our equity compensation plans pursuant to which shares of our class A common stock or other equity securities may be granted from time to time.

| Plan category | (a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights | (b) Weighted average exercise price of outstanding options, warrants, and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders[1] | | $ | 2,160,106 |
| Equity compensation plans not approved by security holders[2] | | | |
| Total | | $ | 2,160,106 |

(1) The number of securities remaining for future issuances consists of an aggregate 2,160,106 shares issuable under our 2013 stock incentive plan and our 2013 manager incentive plan which were approved by our stockholders. Awards under the plan may include restricted stock, unrestricted stock, stock options, stock units, stock appreciation rights, performance shares, performance units, deferred share units or other equity-based awards, as the board of directors may determine.

(2) All of our equity compensation plans have been approved by security holders.

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**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated historical financial data should be read in conjunction with the information set forth under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes thereto that appear on pages F-2 to F-48 of this report.

| | Years ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (in thousands, except for per share data) | | | | |
| **Revenues** | | | | | |
| Interest and related income | $ 53,164 | $ 34,939 | $ 117,161 | $ 158,792 | $ 121,930 |
| **Total revenues** | 53,164 | 34,939 | 117,161 | 158,792 | 121,930 |
| **Expenses** | | | | | |
| Interest expense | 18,017 | 38,138 | 96,974 | 123,963 | 79,753 |
| Management fees | 5,937 | | | | |
| General and administrative expenses | 11,505 | 10,369 | 8,982 | 6,035 | 6,608 |
| Impairments | | 160 | 49,121 | 72,366 | 111,871 |
| (Recovery of) provision for loan losses | | (36,147) | (19,326) | 146,478 | 482,352 |
| Valuation allowance on loans held-for-sale | (1,259) | | 1,456 | 2,119 | 10,363 |
| **Total expenses** | 34,200 | 12,520 | 137,207 | 350,961 | 690,947 |
| Gain on investments at fair value | 7,417 | | | | |
| Gain on extinguishment of debt | 38 | | 271,031 | 3,134 | |
| Fair value adjustment on investment in CT Legacy Asset | | 51,904 | | | |
| Gain on deconsolidation of subsidiaries | | 200,283 | | | |
| Gain on sale of investments | | 6,000 | | | |
| Income (loss) from equity investments in unconsolidated subsidiaries | | 1,781 | 3,649 | 3,608 | (3,736) |
| **Income (loss) before income taxes** | 26,419 | 282,387 | 254,634 | (185,427) | (572,753) |
| **Income tax provision (benefit)** | 995 | 174 | 1,425 | 14 | (408) |
| **Net income (loss) allocable to common stock from continuing operations** | 25,424 | 282,213 | 253,209 | (185,441) | (572,345) |
| **Net (loss) income from discontinued operations, net of tax** | | (2,138) | (890) | 97 | (4,093) |
| **Loss on sale of discontinued operations** | | (271) | | | |
| | 25,424 | 279,804 | 252,319 | (185,344) | (576,438) |

| | | | | | |
|---|---|---|---|---|---|
| **Net income (loss) allocable to common stock** | | | | | |
| **Net (income) loss attributable to non-controlling interests** | (10,392) | (98,780) | 5,823 | | |
| **Net income (loss) attributable to Blackstone Mortgage Trust, Inc.** | $ 15,032 | $ 181,024 | $ 258,142 | $ (185,344) | $ (576,438) |
| **Net income (loss) from continuing operations per share of common stock** | | | | | |
| Basic | $ 0.81 | $ 78.19 | $ 114.31 | $ (82.89) | $ (255.75) |
| Diluted | $ 0.81 | $ 74.16 | $ 108.17 | $ (82.89) | $ (255.75) |
| **Net (loss) income from discontinued operations per share of common stock** | | | | | |
| Basic | $ | $ (1.03) | $ (0.39) | $ 0.04 | $ (1.83) |
| Diluted | $ | $ (1.03) | $ (0.39) | $ 0.04 | $ (1.83) |
| **Net income (loss) per share of common stock** | | | | | |
| Basic | $ 0.81 | $ 77.16 | $ 113.92 | $ (82.85) | $ (257.58) |
| Diluted | $ 0.81 | $ 73.13 | $ 107.78 | $ (82.85) | $ (257.58) |
| **Weighted-average shares of common stock outstanding** | | | | | |
| Basic | 18,520 | 2,346 | 2,266 | 2,237 | 2,238 |
| Diluted | 18,520 | 2,475 | 2,395 | 2,237 | 2,238 |
| **Dividends declared per share of common stock** | $ 0.72 | $ 20.00 | $ | $ | $ |

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| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | | | (in thousands) | | |
| **Balance Sheet Data** | | | | | |
| Total assets | $ 2,212,780 | $ 322,343 | $ 1,366,316 | $ 4,120,690 | $ 1,936,635 |
| Total liabilities | 1,456,030 | 168,890 | 1,495,255 | 4,531,877 | 2,105,802 |
| Non-controlling interests | 38,841 | 80,009 | (18,515) | | |
| Total equity (deficit) | 756,750 | 73,444 | (110,424) | (411,187) | (169,167) |

(1) The consolidated historical financial data above may not be comparable due to the significant impact on our consolidated financial statements of (i) the Investment Management Business Sale in December 2012 and (ii) our corporate debt restructuring in March 2011. Refer to Note 3 to our consolidated financial statements for additional details of these transactions.

## ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*References herein to Blackstone Mortgage Trust, Company, we, us or our refer to Blackstone Mortgage Trust, Inc. and its subsidiaries unless the context specifically requires otherwise.*

*The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K. In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those in this discussion as a result of various factors, including but not limited to those discussed in Part, 1. Item 1A, Risk Factors in this Annual Report on Form 10-K.*

### Introduction

Blackstone Mortgage Trust is a real estate finance company that primarily originates and purchases senior mortgage loans collateralized by properties in the United States and Europe. We are externally managed by BXMT Advisors L.L.C., or our Manager, a subsidiary of The Blackstone Group L.P., or Blackstone, and are a real estate investment trust, or REIT, traded on the NYSE under the symbol BXMT. We are headquartered in New York City.

We conduct our operations as a REIT for U.S. federal income tax purposes. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. We are organized as a holding company and conduct our business primarily through our various subsidiaries.

We operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes our activities specifically related to our legacy investments which preceded the re-launch of our originations business. These include our activities specifically related to our CT Legacy Partners, LLC, or CT Legacy Partners, subsidiary, CT CDO I, and our carried interest in CT Opportunity Partners I, LP, or CTOPI.

### 2013 Developments

In December 2012, we consummated a strategic transaction that included, among other things, the disposition of our investment management and special servicing businesses, and our related fund co-investments to Blackstone. In conjunction with the sale, we entered into an agreement to be managed by our Manager, an affiliate of Blackstone. We refer to the entire transaction as our Investment Management Business Sale.

In May 2013, our board of directors approved the change of our name from Capital Trust, Inc. to Blackstone Mortgage Trust, Inc., which we effected concurrently with a one-for-ten reverse stock split of our class A common stock. At this time, we re-launched our originations business by issuing 25,875,000 shares of class A common stock for a public offering price of $25.50 per share, generating net proceeds from the issuance of $633.8 million after underwriting discounts and other offering expenses.

Following the re-launch of our business in May 2013 through December 31, 2013, we originated $2.5 billion of new loans, obtained $1.9 billion of secured credit facilities, and issued $172.5 million of convertible notes.

Because our re-launched business since May 2013 is not comparable to our activities earlier in 2013, or in prior years, the following discussion and analysis of our key financial measures and indicators is focused on our activities during the second half of 2013, rather than the entire year.

## I. Key Financial Measures and Indicators

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends declared, Core Earnings, and book value per share. For the three months ended December 31, 2013 we recorded earnings per share of $0.24, declared a dividend of $0.45 per share, and reported $0.41 per share of Core Earnings, and our book value per share as of December 31, 2013 was $24.25. As further described below, Core Earnings is a measure that is not prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. We use Core Earnings to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio and operations.

### Earnings Per Share

The following table sets forth the calculation of basic and diluted net income per share of class A common stock based on the weighted average of both restricted and unrestricted class A common stock outstanding ($ in thousands, except per share data):

| | Three Months Ended | |
|---|---|---|
| | December 31, 2013 | September 30, 2013 |
| Net income | $ 7,079 | $ 8,320 |
| Weighted-average shares outstanding, basic and diluted | 29,364,448 | 28,894,515 |
| Net income per share, basic and diluted | $ 0.24 | $ 0.29 |

The $0.05 per share decline in net income during the fourth quarter was primarily due to the recognition of $4.0 million of aggregate interest and compensation expenses in our CT Legacy Portfolio segment. Earnings per share in our Loan Origination segment increased by $0.10 to $0.37 per share for the three months ended December 31, 2013, as compared to the three months ended September 30, 2013 primarily driven by our strong origination volume in the second half of 2013. The following table calculates our net income per share of class A common stock allocated between our two reportable segments ($ in thousands, except per share data):

| | Three Months Ended December 31, 2013 | | |
|---|---|---|---|
| | Loan Origination | CT Legacy Portfolio | Total |
| Net income (loss) | $ 10,749 | $ (3,670) | $ 7,079 |
| Weighted-average shares outstanding,basic and diluted | 29,364,448 | 29,364,448 | 29,364,448 |
| Net income (loss) per share,basic and diluted | $ 0.37 | $ (0.13) | $ 0.24 |

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The following table compares our operating results for the three months ended December 31, 2013 and September 30, 2013 ($ in thousands, except per share data):

| | Q4 2013 | Q3 2013 | $ Change | % Change |
|---|---|---|---|---|
| **Income from loans and other investments** | | | | |
| Interest and related income | $ 26,837 | $ 18,853 | $ 7,984 | 42.3% |
| Less: Interest and related expenses | 11,525 | 4,407 | 7,118 | 161.5% |
| **Income from loans and other investments, net** | 15,312 | 14,446 | 866 | 6.0% |
| Other operating expenses | 7,929 | 4,048 | 3,881 | 95.9% |
| Other income (loss) | 3,012 | (136) | 3,148 | N/M |
| **Income before income taxes** | 10,395 | 10,262 | 133 | 1.3% |
| **Income tax provision (benefit)** | 667 | (264) | 931 | N/M |
| **Net income** | 9,728 | 10,526 | (798) | -7.6% |
| **Net income attributable to non-controlling interests** | (2,649) | (2,206) | (443) | 20.1% |
| **Net income attributable to Blackstone Mortgage Trust, Inc.** | $ 7,079 | $ 8,320 | $ (355) | -4.3% |
| **Dividends per share** | $ 0.45 | $ 0.27 | $ 0.18 | 66.7% |

*Income from loans and other investments, net*

Income from loans and other investments increased $866,000, or 6.0%, on a net basis during the fourth quarter of 2013 compared to the third quarter of 2013. The increase was primarily due to (i) earning a full quarter of interest on the loans originated during the third quarter of 2013, and (ii) additional interest earned on the $908.7 million of loans originated and funded during the fourth quarter of 2013. This was offset by additional interest expense resulting from (i) $466.3 million of additional net borrowings under repurchase agreements, (ii) the issuance of $172.5 million of convertible notes, (iii) a $90.0 million senior loan participation sold, and (iv) a one-time charge of $2.0 million associated with the full repayment of our secured notes. The repayment of our secured notes was triggered by our receipt of common equity distributions of $46.6 million from CT Legacy Partners, which is further discussed below.

*Other operating expenses*

Other operating expenses are comprised of management fees paid to our Manager and general and administrative expenses. Other operating expenses increased by $3.9 million during the fourth quarter of 2013 compared to the third quarter of 2013 primarily due to (i) a $2.0 million expense related to the accelerated vesting of certain awards under the CT Legacy Partners incentive plan related to the common equity distributions from CT Legacy Partners referred to above, (ii) $1.1 million of non-cash restricted stock amortization related to shares awarded during the fourth quarter of 2013 under our stock compensation plans, and (iii) $800,000 of other general operating expenses.

*Other income (loss)*

During the fourth quarter of 2013, we recognized $3.0 million of net gains on investments carried at fair value in the CT Legacy Portfolio. During the third quarter of 2013, we recognized $136,000 of net unrealized losses on investments carried at fair value in the CT Legacy Portfolio.

**Dividends per share**

On December 16, 2013, we declared a dividend of $13.0 million, or $0.45 per share, which was paid on January 15, 2014 to class A common stockholders of record as of December 31, 2013. On September 10, 2013,

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we declared a dividend of $7.8 million, or $0.27 per share, which was paid on October 15, 2013 to class A common stockholders of record as of September 30, 2013.

As a REIT, we generally must distribute substantially all of our net taxable income to stockholders in the form of dividends to comply with the REIT provisions of the Internal Revenue Code. Our taxable income does not necessarily equal our net income as calculated in accordance with GAAP, or our Core Earnings as described below.

**Core Earnings**

Core Earnings is a non-GAAP measure, which we defined as GAAP net income (loss), including realized losses not otherwise included in GAAP net income (loss), and excluding (i) net income (loss) attributable to our CT Legacy Portfolio segment, (ii) non-cash equity compensation expense, (iii) incentive management fees, (iv) depreciation and amortization, and (v) unrealized gains (losses) or similar non-cash items. Core Earnings may also be adjusted from time to time to exclude one-time events pursuant to changes in GAAP and certain other non-cash charges as determined by our Manager, subject to approval by a majority of our independent directors. Our Manager has determined, and a majority of our independent directors has approved, the exclusion from Core Earnings of the amortization of the deemed issue discount on our convertible notes resulting from the conversion option value accounting under GAAP.

We believe that Core Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with GAAP. This adjusted measure helps us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current investment portfolio and operations. We also use Core Earnings to calculate the incentive and base management fees due to our Manager under our Management Agreement and, as such, we believe that the disclosure of Core Earnings is useful to our investors.

Core Earnings does not represent net income or cash generated from operating activities and should not be considered as an alternative to GAAP net income, or an indication of our cash flow from GAAP operating activities, a measure of our liquidity, or an indication of funds available for our cash needs. In addition, our methodology for calculating Core Earnings may differ from the methodologies employed by other companies to calculate the same or similar supplemental performance measures, and accordingly, our reported Core Earnings may not be comparable to the Core Earnings reported by other companies.

The following table provides a reconciliation of Core Earnings to GAAP net income ($ in thousands, except per share data):

| | Three Months Ended | |
|---|---|---|
| | **December 31, 2013** | **September 30, 2013** |
| Net income | $ 7,079 | $ 8,320 |
| CT Legacy Portfolio segment net loss (income) | 3,670 | (437) |
| Amortization of discount on convertible notes | 130 | |
| Unrealized gain on foreign currency remeasurement | (23) | |
| Non-cash compensation expense | 1,158 | 94 |
| Core earnings | $ 12,014 | $ 7,977 |

| | | | | |
|---|---|---|---|---|
| Weighted-average shares outstanding, basic and diluted | | 29,364,448 | | 28,894,515 |
| Core earnings per share, basic and diluted | $ | 0.41 | $ | 0.28 |

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**Book Value per Share**

The following table calculates our book value per share ($ in thousands, except per share data):

| | December 31, 2013 | September 30, 2013 |
|---|---|---|
| Equity | $ 717,909 | $ 713,327 |
| Shares | | |
| Class A common stock | 28,801,651 | 28,801,651 |
| Restricted class A common stock | 700,000 | |
| Stock units | 101,233 | 96,514 |
| | 29,602,884 | 28,898,165 |
| Book value per share | $ 24.25 | $ 24.68 |

On a consolidated basis, our book value per share decreased by $0.43 during the fourth quarter, primarily as a result of (i) the excess of dividends declared over GAAP net income, and (ii) the issuance of 700,000 shares of restricted class A common stock. However, the book value per share attributable to our Loan Origination segment increased by a net $0.97 per share during the quarter. This increase was driven by our receipt of a net $28.0 million of equity distributions from CT Legacy Partners and an $8.8 million tax advance cash distribution from CTOPI, which effectively shifted book value from our CT Legacy Portfolio segment to our Loan Origination segment, and which capital is therefore available to finance additional loan originations. The following table calculates our book value per share allocated between our two reportable segments ($ in thousands, except per share data):

| | December 31, 2013 | | |
|---|---|---|---|
| | Loan Origination | CT Legacy Portfolio | Total |
| Equity | $ 693,604 | $ 24,305 | $ 717,909 |
| Shares | | | |
| Class A common stock | 28,801,651 | 28,801,651 | 28,801,651 |
| Restricted class A common stock | 700,000 | 700,000 | 700,000 |
| Stock units | 101,233 | 101,233 | 101,233 |
| | 29,602,884 | 29,602,884 | 29,602,884 |
| Book value per share | $ 23.43 | $ 0.82 | $ 24.25 |

## II. Loan Origination Portfolio

During the year ended December 31, 2013, our Loan Origination segment funded $2.3 billion under $2.5 billion of new loan commitments and generated interest income of $41.6 million. Our loan portfolio was financed with $1.1 billion of borrowings under our repurchase facilities, $172.5 million of convertible notes, and a $90.0 million senior loan participation, which resulted in interest expense of $13.1 million during the year. In the aggregate, our Loan Origination segment generated net interest income of $28.6 million during the year.

**Portfolio Overview**

The following table details our loan originations activity during the year ended December 31, 2013 ($ in thousands):

| | Loans Originated | Loan Commitments | Loan Fundings |
|---|---|---|---|
| Senior mortgage loans[1] | 28 | $ 2,283,241 | $ 2,120,564 |
| Subordinate loans | 1 | 173,837 | 173,837 |
| Total | 29 | $ 2,457,078 | $ 2,294,401 |

(1) Includes senior mortgage loans, related contiguous subordinate loans with a net book value of $77.0 million, and pari passu participations in mortgages.

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The following table details our loan repayment activity during the year ended December 31, 2013 ($ in thousands):

| | Loan Satisfactions | Loan Repayments(1) | Total |
|---|---|---|---|
| Senior mortgage loans | $ 58,000 | $ 217,537 | $ 275,537 |

(1) Includes partial loan repayments and loan sales.

As of December 31, 2013, the majority of loans in the Loan Origination segment were senior mortgage loans or, in certain cases, loans structured as mezzanine loans that have risk exposure substantially similar to senior mortgage loans. The following table details overall statistics for our loans receivable portfolio within the Loan Origination segment ($ in thousands):

| | December 31, 2013 |
|---|---|
| Number of loans | 28 |
| Principal balance | $ 2,018,863 |
| Net book value(1) | $ 2,000,223 |
| Weighted-average cash coupon(2) | L+4.64% |
| Weighted-average all-in yield(2) | L+5.28% |
| Weighted-average maximum maturity (years)(3) | 4.2 |

(1) The difference between principal balance and net book value is primarily due to deferred origination fees.

(2) All loans are floating rate loans indexed to LIBOR as of December 31, 2013; however, certain of our loans receivable earn a minimum LIBOR floor ranging from 0.20% to 1.00%. All-in yield includes amortization of deferred origination fees and other items.

(3) Maximum maturity date assumes all extension options are exercised.

The charts below detail the geographic distribution and types of properties securing these loans, as of December 31, 2013 ($ in millions):

Refer to section V of this Item 7 for details of our loan portfolio, on a loan-by-loan basis.

*Asset Management and Performance*

We actively manage the investments in our Loan Origination portfolio and exercise the rights afforded to us as a lender, including collateral level budget approvals, lease approvals, loan covenant enforcement, escrow/reserve management/collection, collateral release approvals and other rights that we may negotiate.

As discussed in Note 2 to our consolidated financial statements, our Manager performs a quarterly review of our loan portfolio, assesses the performance of each loan, and assigns it a risk rating between 1 (lowest risk) to 8 (highest risk). Loans that pose a higher risk of non-performance and/or loss are placed on our watch list. Watch list loans are those with an internal risk rating of 4 or higher.

As of December 31, 2013, all of the investments in the Loan Origination segment are performing as expected and the weighted-average risk rating of our loan portfolio is 2.8.

*Repurchase Facilities and Loan Participations*

During 2013, we entered into four revolving repurchase facilities and four asset-specific repurchase agreements, providing $1.9 billion of credit. As of December 31, 2013, we had aggregate borrowings of $1.1 billion outstanding under our repurchase facilities, with a weighted-average cash coupon of LIBOR plus 2.12% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.39% per annum. As of December 31, 2013, these facilities had a weighted-average initial maturity, excluding extension options and term-out provisions, of 2.4 years. During 2013, we also sold a $90.0 million senior loan participation in a subordinate loan we acquired with a cash coupon of LIBOR plus 5.12% and a weighted-average yield of LIBOR plus 5.26%.

The following table details the repurchase borrowings outstanding as of December 31, 2013 ($ in thousands):

| | | Collateral Assets | | Repurchase Borrowings(3) | | |
|---|---|---|---|---|---|---|
| **Lender** | **Maximum Facility Size(1)** | **Principal Balance(2)** | **Net Book Value(2)** | **Potential** | **Current** | **Available** |
| **Revolving Repurchase Facilities** | | | | | | |
| Bank of America | $ 500,000 | $ 355,981 | $ 352,995 | $ 280,500 | $ 271,320 | $ 9,180 |
| Citibank | 500,000 | 613,339 | 609,236 | 460,765 | 334,692 | 126,073 |
| JP Morgan(4) | 614,525 | 442,035 | 439,706 | 340,912 | 257,610 | 83,302 |
| Subtotal | 1,614,525 | 1,411,355 | 1,401,937 | 1,082,177 | 863,622 | 218,555 |
| **Asset-Specific Financings** | | | | | | |
| Wells Fargo(5) | 288,354 | 334,857 | 333,418 | 245,731 | 245,731 | |
| **Total** | **$ 1,902,879** | **$ 1,746,212** | **$ 1,735,355** | **$ 1,327,908** | **$ 1,109,353** | **$ 218,555** |

(1) Maximum facility size represents the total amount of borrowings provided for in each repurchase agreement, however these borrowings are only available to us once sufficient collateral assets have been pledged under each facility.
(2) The difference between principal balance and net book value of collateral assets is due to deferred origination fees.
(3) Potential borrowings represent the total amount we could draw under each facility based on collateral already approved and pledged. When undrawn, these amounts are immediately available to us at our sole discretion under the terms of each revolving credit facility.
(4) The JP Morgan maximum facility size is composed of a $250.0 million facility, a £153.0 million ($252.5 million) facility, and $112.0 million related solely to a specific asset with a repurchase date of June 27, 2014.

(5) Represents an aggregate of four asset-specific repurchase agreements with Wells Fargo.

Refer to Notes 10 and 11 to our consolidated financial statements for additional terms and details of our repurchase facilities and participations sold, including certain financial covenants.

**Floating Rate Portfolio**

Our Loan Origination portfolio as of December 31, 2013 was comprised of floating rate loans financed by floating rate secured debt, which results in a return on equity that is correlated to LIBOR. Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income. For instance, all other things being equal, as of December 31, 2013, a 100 basis point increase in LIBOR would have increased our net income by $8.2 million per annum. The following table details our Loan Origination segment s sensitivity to interest rates ($ in thousands):

| | December 31, 2013 |
|---|---|
| Floating rate loans[1] | $ 2,018,863 |
| Floating rate debt[1][2] | (1,199,353) |
| Net floating rate exposure | $ 819,510 |
| Net income impact from 100 bps increase in LIBOR[3] | $ 8,195 |

(1) Our floating rate loans and debt are indexed to LIBOR as of December 31, 2013.
(2) Includes borrowings under repurchase facilities and loan participations sold.
(3) Excludes the impact of LIBOR floors on certain of our loans receivable.

**Convertible Notes**

In November 2013, we issued $172.5 million of 5.25% convertible senior notes due on December 1, 2018, or the Convertible Notes. The Convertible Notes issuance costs, including underwriter discounts, are amortized through interest expense over the life of the Convertible Notes using the effective interest method. Including this amortization, our all-in cash cost of the Convertible Notes is 5.87%.

Refer to Notes 2 and 10 to our consolidated financial statements for additional discussion of our Convertible Notes.

## III. CT Legacy Portfolio

Our CT Legacy Portfolio consists of: (i) our interests in CT Legacy Partners; (ii) our carried interest in CTOPI, a private investment fund that was previously under our management and is now managed by an affiliate of our Manager; and (iii) our subordinated interests in CT CDO I.

During the year ended December 31, 2013, we received common equity distributions of $46.6 million from CT Legacy Partners and an $8.8 million tax advance cash distribution from CTOPI. The receipt of distributions from CT Legacy Partners triggered our payments of $11.1 million to fully satisfy the related secured notes and $7.6 million under the CT Legacy Partners management incentive awards plan, which in turn resulted in the recognition of aggregate interest and compensation expenses of $4.0 million.

The $36.8 million of net cash flow during the quarter to us from our CT Legacy segment is unrestricted and available for deployment by us in the loan origination segment of our business. The one-time expenses recognized as a result of these distributions contributed to a net loss of $3.7 million for our CT Legacy Portfolio segment during the quarter.

**CT Legacy Partners**

*Portfolio Overview*

Our investment in CT Legacy Partners represents our 52% equity interest in a vehicle we formed to own and finance certain assets that we retained in connection with a comprehensive debt restructuring in 2011. As of December 31, 2013, the CT Legacy Partners portfolio included loans with an aggregate principal balance of $145.3 million and an aggregate fair value of $40.7 million. Refer to section V of this Item 7 for details of the CT Legacy Partners loan portfolio, on a loan-by-loan basis.

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The following table details the components of our gross investment in CT Legacy Partners included in our consolidated balance sheet, as well as our net investment in CT Legacy Partners after the future payments under the secured notes and management incentive awards plan as of December 31, 2013 ($ in thousands):

| | December 31, 2013 |
|---|---|
| Restricted cash | $ 10,096 |
| Loans receivable, at fair value | 40,665 |
| Accrued interest receivable, prepaid expenses, and other assets | 16,118 |
| Accounts payable, accrued expenses and other liabilities | (378) |
| Non-controlling interests | (38,841) |
| | $ 27,660 |
| Management incentive awards plan, fully vested[1] | (3,848) |
| Net investment in CT Legacy Partners | $ 23,812 |

(1) Assumes full payment of the management incentive awards plan, as described below, based on the hypothetical GAAP liquidation value of CT Legacy Partners as of December 31, 2013. We periodically accrue a payable for the management incentive awards plan based on the vesting schedule for the awards and continued employment with an affiliate of our Manager of the award recipients. As of December 31, 2013, our balance sheet includes $2.8 million in accounts payable and accrued expenses for the management incentive awards plan. Refer to Note 14 to our consolidated financial statements for further details.

*Secured Notes*

In October 2013, we received a $36.2 million distribution from CT Legacy Partners in respect of our common equity interests, the majority of which served as collateral under our secured notes. Accordingly, we repaid these notes in full, and recognized a $2.0 million prepayment penalty as a component of interest expense. We therefore had no secured notes outstanding as of December 31, 2013.

*CT Legacy Partners Background*

On March 31, 2011, we restructured, amended, or extinguished all of our outstanding recourse debt obligations, which we refer to as our March 2011 Restructuring. Our March 2011 Restructuring involved: (i) the contribution of certain of our legacy assets to a newly formed subsidiary, CT Legacy REIT Mezz Borrower, Inc., or CT Legacy REIT, (the predecessor of CT Legacy Partners); (ii) the assumption of our legacy repurchase obligations by CT Legacy REIT; and (iii) the extinguishment of the remainder of our recourse obligations, our senior credit facility and junior subordinated notes. CT Legacy Partners is beneficially owned 52% by us and 48% by our former lenders. In addition, CT Legacy Partners has issued class B common shares, a subordinate class of equity which entitles its holders to receive approximately 25% of the dividends that would otherwise be payable to us on our equity interest in CT Legacy Partners, after aggregate cash distributions of $50.0 million have been paid to all other classes of common equity. Further, CT Legacy Partners has issued class A preferred shares which entitle its holder to cumulative preferred distributions in an amount generally equal to the greater of (i) 2.5% of certain of CT Legacy Partners assets, and (ii) $1.0 million per annum. Refer to Note 8 to our consolidated financial statements for additional details on CT Legacy Partners.

To maintain its tax efficiency, on March 20, 2013, a majority of the stockholders CT Legacy REIT voted in favor of a plan of merger, dated March 22, 2013, or the Merger, whereby CT Legacy REIT merged with and into CT Legacy Partners, effective as of March 22, 2013. Refer to Note 3 to our consolidated financial statements for further details on the Merger.

**Carried Interest in CTOPI**

CTOPI is a private equity real estate fund that we sponsored and formed in 2007. The fund invested $491.5 million in 39 transactions between 2007 and the end of its investment period in 2012. To date, $405.8 million of these investments have been realized and $85.8 million remain outstanding (carried at 1.6x cost) as of December 31, 2013. In conjunction with the Investment Management Business Sale, we transferred our management of CTOPI and sold our 4.6% co-investment to Blackstone. However, we retained our carried interest in CTOPI following the sale.

Our carried interest in CTOPI entitles us to earn incentive compensation in an amount equal to 17.7% of the fund s profits, after a 9% preferred return and 100% return of capital to the CTOPI partners. We own a net 55% of the carried interest of CTOPI s general partner; the remaining 45% is payable under previously issued incentive awards.

As of December 31, 2013, we had been allocated $18.0 million of incentive compensation from CTOPI based on a hypothetical liquidation of the fund at its net asset value, and after payment of the related incentive awards. The CTOPI partnership agreement provides for advance distributions in respect of our incentive compensation to allow us to pay any income taxes owed on phantom taxable income allocated to us from the partnership. We refer to these distributions as CTOPI Tax Advances. As of December 31, 2013, we have received $10.2 million of aggregate Tax Advances from CTOPI, resulting in an asset value of our investment in CTOPI of $7.8 million. In the event the performance of CTOPI does not ultimately result in a sufficient allocation of incentive compensation to us, we would be required to return these CTOPI Tax Advances to the fund.

We have elected to defer the recognition of income on our carried interest in CTOPI until cash is collected or appropriate contingencies have been eliminated. As a result, our net investment in the CTOPI carried interest has a book value of negative $10.2 million, the amount of cumulative CTOPI Tax Advances received as of December 31, 2013.

Refer to Note 9 of our consolidated financial statements for additional discussion of the CTOPI incentive management fee awards to our former employees.

**CT CDO I**

*Portfolio Overview*

As of December 31, 2013, our consolidated balance sheet included an aggregate $49.8 million of assets and $40.2 million of liabilities related to CT CDO I, a highly-levered securitization vehicle that we formed in 2004.

Specifically, we own the subordinate debt and equity positions of CT CDO I. As a result of consolidation, our subordinate debt and equity ownership interests in CT CDO I is not included on our balance sheet, which instead reflects both the assets held and debt issued by CT CDO I to third-parties. Similarly, our operating results and cash flows include the gross amounts related to the assets and liabilities of CT CDO I, as opposed to our net economic interests in this entity.

Our economic interest in the loans receivable assets held by CT CDO I, which is consolidated on our balance sheet, is restricted by the structural provisions of CT CDO I, and our recovery of these assets will be limited by its distribution provisions. The liabilities of CT CDO I, which are also consolidated on our balance sheet, are non-recourse to us, and can only be satisfied by proceeds from its collateral asset pool. We are not obligated to provide, nor have we provided, any financial support to CT CDO I. Refer to section V of this Item 7 for details of the CT CDO I loan portfolio, on a loan-by-loan basis.

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## IV. Our Results of Operations and Liquidity

### Results of Operations

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the years ended December 31, 2013, 2012, and 2011 ($ in thousands, except per share data):

| | Year Ended December 31, | | | 2013 vs. 2012 | | 2012 vs. 2011 | |
|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | $ | % | $ | % |
| **Income from loans and other investments** | | | | | | | |
| Interest and related income | $ 53,164 | $ 34,939 | $ 117,161 | $ 18,225 | 52.2% | $ (82,222) | -70.2% |
| Less: Interest and related expenses | 18,017 | 38,138 | 96,974 | (20,121) | -52.8% | (58,836) | -60.7% |
| Income (loss) from loans and other investments, net | 35,147 | (3,199) | 20,187 | 38,346 | N/M | (23,386) | N/M |
| **Other expenses** | | | | | | | |
| Management fees | 5,937 | | | 5,937 | 100.0% | | % |
| General and administrative expenses | 11,505 | 10,369 | 8,982 | 1,136 | 11.0% | 1,387 | 15.4% |
| Total other expenses | 17,442 | 10,369 | 8,982 | 7,073 | 68.2% | 1,387 | 15.4% |
| Impairments, provisions, and valuation adjustments | 8,676 | 87,891 | (31,251) | (79,215) | -90.1% | 119,142 | N/M |
| Gain on deconsolidation of subsidiary | | 200,283 | | (200,283) | -100.0% | 200,283 | 100.0% |
| Gain on sale of investments | | 6,000 | | (6,000) | -100.0% | 6,000 | 100.0% |
| Gain on extinguishment of debt | 38 | | 271,031 | 38 | 100.0% | (271,031) | -100.0% |
| Income from equity investments in unconsolidated subsidiaries | | 1,781 | 3,649 | (1,781) | -100.0% | (1,868) | -51.2% |
| **Income before provision for taxes** | 26,419 | 282,387 | 254,634 | (255,968) | -90.6% | 27,753 | 10.9% |
| **Income tax provision** | 995 | 174 | 1,425 | 821 | N/M | (1,251) | -87.8% |
| **Income from continuing operations** | $ 25,424 | $ 282,213 | $ 253,209 | $ (256,789) | -91.0% | $ 29,004 | 11.5% |
| **Loss from discontinued operations, net of tax** | | (2,138) | (890) | 2,138 | -100.0% | (1,248) | 140.2% |
| **Loss on sale of discontinued operations** | | (271) | | 271 | -100.0% | (271) | 100.0% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net income** | $ 25,424 | $ 279,804 | $ 252,319 | $ (254,380) | -90.9% | $ 27,485 | 10.9% |
| **Net (income) loss attributable to non-controlling interests** | (10,392) | (98,780) | 5,823 | 88,388 | -89.5% | (104,603) | N/M |
| **Net income attributable to Blackstone Mortgage Trust, Inc.** | $ 15,032 | $ 181,024 | $ 258,142 | $ (165,992) | -91.7% | $ (77,118) | -29.9% |
| Net income from continuing operations per share diluted diluted | $ 0.81 | $ 74.16 | $ 108.17 | | | | |
| Net income per share diluted | $ 0.81 | $ 73.13 | $ 107.78 | | | | |
| Dividends per share | $ 0.72 | $ 2.00 | $ | | | | |

*Income from loans and other investments, net*

Income from loans and other investments, net increased by $38.3 million during 2013 compared to 2012. This increase is comprised of $28.6 million related to our Loan Origination segment and $9.7 million related to our CT Legacy Portfolio segment. The increase in our Loan Origination segment is a result of the re-launch of our originations business in May 2013. The increase in the CT Legacy Portfolio segment relates to the deconsolidation of CT CDOs II and IV in December 2013 as well as a $10.2 million one-time expense in 2012 relating to the acceleration of discount associated with the $83.0 million CT Legacy Partners mezzanine loan.

Income from loans and other investments, net decreased by $23.4 million during 2012 compared to 2011. This decrease was driven by (i) the deconsolidation of CT Legacy Assets in July 2012, (ii) the $10.2 million discount acceleration described above, and (iii) asset repayments during 2012 and 2011.

*Other expenses*

Other expenses includes management fees paid to our Manager and general and administrative expenses. All general and administrative expenses incurred during and 2012 and 2011 related to our former investment management business have been reclassified to loss from discontinued operations.

Other expenses increased by $7.1 million during 2013 compared to 2012 primarily due to (i) an increase of $6.0 million of management fees to our Manager, (ii) $2.5 million of non-cash compensation expenses driven by the accelerated vesting of certain awards under the CT Legacy Partners incentive plan, (iii) $1.7 million of additional professional fees and other operating costs, and (iv) $787,000 of additional expenses of our consolidated securitized vehicles. These were partially offset by $3.8 million of transaction costs related to the Investment Management Business Sale during 2012.

Other expenses increased by $1.4 million during 2012 compared to 2011. The increase was primarily due to expenses incurred during 2012 related to our Investment Management Business Sale.

*Impairments, provisions, and valuation adjustments*

During 2013, we recognized (i) $7.4 million of net gains on investments held by CT Legacy Partners and (ii) a $1.3 million positive valuation adjustment on CT CDO I s loan classified as held-for-sale.

During 2012, we recognized (i) a $51.9 million positive fair value adjustment on our net investment in CT Legacy Asset, (ii) a $36.1 million net recovery of provision for loan losses, and (iii) a $160,000 impairment, representing an additional credit loss on one of the securities in CT CDO I.

During 2011, we recognized (i) a net $48.1 million impairment on nine securities that had an adverse change in cash flow expectations, (ii) a net $19.3 million recovery of provision for loan losses, (iii) a $1.5 million valuation allowance related to one loan that was classified as held-for-sale, and (iv) a $1.0 million impairment of real estate held-for-sale.

*Other significant items*

As a result of the Investment Management Business Sale in December 2012, our 2013 operating results do not include any income or expense items related to our former investment management business, and the income and expense items related to our investment management business in 2012 and 2011 have been reclassified to loss from discontinued operations. We also sold our class A preferred shares in CT Legacy Asset for $6.0 million to an affiliate of Blackstone. These shares had a carrying value of zero on our consolidated balance sheet, and so the entire amount was recognized as a gain on sale of investment.

During 2012, we recognized a gain of $146.4 million on the deconsolidation of CT Legacy Asset and $53.9 million on the deconsolidation of CT CDOs II and IV. These gains were primarily the result of a reversal of charges to GAAP equity resulting from losses previously recorded in excess of our economic interests in these vehicles.

During 2011, we recorded a $271.0 million gain on the extinguishment of debt due to (i) the extinguishment of the senior credit facility and junior subordinated notes of $174.8 million as part of our March 2011 Restructuring, (ii) the termination of loan participations sold of $75.0 million, and (iii) realized losses in consolidated securitization vehicles of $21.2 million.

The income from equity investments during 2012 of $1.8 million was comprised of income from our co-investments in CTOPI and CT High Grade II. CTOPI s income was largely the result of the recognition of income on investments purchased at a discount, income from operations, and fair value adjustments on its investment portfolio. CT High Grade II s income was primarily the result of positive fair value adjustments on its investment portfolio. In December 2012, these co-investments were sold as a component of our Investment Management Business Sale.

Income from equity investments during 2011 of $3.6 million was largely the result of investment income and fair value adjustments on the CTOPI portfolio, and the recognition of income on investments purchased at a discount. We did not have a co-investment in CT High Grade II in 2011.

During 2013, we recorded an income tax provision primarily related to income generated by investments held by our taxable REIT subsidiaries. During 2012, we recorded an income tax provision primarily related to alternative minimum taxes incurred as a result of our use of net operating losses, or NOLs, to offset 2012 taxable income. During 2011, we recorded an income tax provision primarily related to income generated by a taxable REIT subsidiary of CT Legacy REIT. All income taxes related to our former investment management business have been reclassified to loss from discontinued operations.

*Dividends per share*

During 2013, we declared quarterly dividends of $21.1 million, or $0.72 per share. During 2012, we declared a special dividend of $48.6 million, or $20.00 per share. We did not declare any dividends during 2011.

**Liquidity and Capital Resources**

*Capitalization*

On May 29, 2013, we issued 25,875,000 shares of class A common stock in a public offering at a price of $25.50 per share. We generated net proceeds from the issuance of $633.8 million after underwriting discounts and other offering expenses. On January 14, 2014, we issued 9,775,000 shares of class A common stock in a public offering at a price to the underwriters of $26.25 per share. We generated net proceeds from the issuance of $256.1 million after underwriting discounts and other offering expenses.

On November 25, 2013, we issued $172.5 million of Convertible Notes. We generated net proceeds from the issuance of $167.6 million after underwriter discounts and other offering expenses. The Convertible Notes issuance costs, including underwriter discounts, are amortized through interest expense over the life of the Convertible Notes using the effective interest method. Including this amortization, our all-in cost of the Convertible Notes is 5.87%.

During 2013, we entered into four revolving repurchase facilities and four asset-specific repurchase agreements, providing $1.9 billion of credit. As of December 31, 2013, we had aggregate borrowings of $1.1 billion outstanding under repurchase facilities, with a weighted-average cash coupon of LIBOR plus 2.12% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.39% per annum. As of December 31, 2013, these facilities had a weighted-average initial maturity, excluding extension options and term-out provisions, of 2.4 years.

As of December 31, 2013, our consolidated balance sheet also included the non-recourse securitized debt obligations of CT CDO I. See above discussion of CT CDO I for further information.

*Sources of Liquidity*

Our primary sources of liquidity include cash and cash equivalents and available borrowings under our repurchase facilities, which are set forth in the following table ($ in thousands):

| | As of December 31, | |
|---|---|---|
| | **2013** | **2012** |
| Cash and cash equivalents | $ 52,342 | $ 15,423 |
| Available borrowings under repurchase facilities | 218,555 | |
| | $ 270,897 | $ 15,423 |

See Note 10 to our consolidated financial statements for additional terms and details of our repurchase facilities.

During the year ended December 31, 2013, we received net cash distributions from our equity interests in CT Legacy Partners of $28.0 million and an $8.8 million tax cash advance from our carried interest in CTOPI. Other than to the extent we receive such cash distributions, we generally do not have access to liquidity from our CT Legacy Portfolio, including our equity interests in CT Legacy Partners, our carried interest in CTOPI, and our residual ownership interest in CT CDO I. We expect to realize further cash recoveries from each of these portfolios over the next several years.

In addition to our current sources of liquidity, we have access to liquidity through public offerings of debt and equity securities. To facilitate such offerings, in July 2013, we filed a shelf registration statement with the SEC that is effective for a term of three years and will expire in July 2016. The amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit on the amount of securities we may issue. The securities covered by this registration statement include: (i) class A common stock, (ii) preferred stock, (iii) debt securities, (iv) depositary shares representing preferred stock, (v) warrants, (vi) subscription rights, (vii) purchase contracts, and (viii) units consisting of one or more of such securities or any combination of these securities. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

*Liquidity Needs*

In addition to our ongoing loan origination activity, our primary liquidity needs include interest and principal payments under our $1.3 billion of outstanding debt obligations, our $164.3 million of unfunded loan commitments, dividend distributions to our stockholders, and operating expenses.

We have no obligations to provide financial support to CT Legacy Partners, CTOPI, or CT CDO I, and all debt obligations of such entities, some of which are consolidated onto our financial statements, are non-recourse to us.

*Contractual Obligations and Commitments*

Our contractual obligations and commitments as of December 31, 2013 were as follows ($ in thousands):

| | Total | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Loan commitments[1] | $ 164,283 | $ 25,308 | $ 111,925 | $ 27,050 | $ |
| Repurchase obligations[2] | 1,109,353 | 57,703 | 890,440 | 161,210 | |
| Securitized debt obligations[3] | 40,181 | | | | 40,181 |
| Convertible notes | 217,027 | 9,056 | 18,113 | 189,858 | |
| Participations sold[4] | 96,134 | 4,825 | 91,309 | | |
| Total | $ 1,626,977 | $ 96,893 | $ 1,111,786 | $ 378,118 | $ 40,181 |

(1)

The allocation of our unfunded loan commitments is based on the earlier of the commitment expiration date or the loan maturity date.

(2) The allocation of our repurchase obligations is based on the initial maturity date of each individual borrowing under our repurchase facilities. Excludes the related future interest payment obligations, which are not fixed and determinable due to the revolving nature of these facilities.

(3) Excludes the related future interest payment obligation, the timing and amount of which are subject to the timing and amount of collateral asset repayments, and cannot be predicted.

(4) Obligations are indexed to LIBOR. Future interest payment obligations are determined using the LIBOR rate in effect as of December 31, 2013.

We are also required to pay our Manager a base management fee, an incentive fee, and reimbursements for certain expenses pursuant to Management Agreement. The table above does not include the amounts payable to our Manager under our Management Agreement as they are not fixed and determinable. Refer to Note 14 to our consolidated financial statements for additional terms and details of the fees payable under our Management Agreement.

As a REIT, we generally must distribute substantially all of our net taxable income to shareholders in the form of dividends to comply with the REIT provisions of the Internal Revenue Code. Our taxable income does not necessarily equal our net income as calculated in accordance with GAAP, or our Core Earnings as described above.

*Cash Flows*

The following table provides a breakdown of the net change in our cash and cash equivalents ($ in thousands):

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Cash flows from operating activities | $ 28,692 | $ 6,768 | $ 28,884 |
| Cash flows from investing activities | (1,782,491) | 189,601 | 2,093,405 |
| Cash flows from financing activities | 1,790,718 | (215,764) | (2,111,920) |
| Net increase (decrease) in cash and cash equivalents | $ 36,919 | $ (19,395) | $ 10,369 |

We experienced a net increase in cash of $36.9 million for the year ended December 31, 2013, compared to a net decrease of $19.4 million for the year ended December 31, 2012. The increase was primarily due to the receipt of cash interest on loans in our Loan Origination segment which was partially offset by cash paid for interest and other operating expenses.

During 2013, we (i) borrowed $1.1 billion under our repurchase facilities, (ii) generated $633.8 million of net proceeds from the sale of our class A common stock, and (iii) generated $167.6 million of net proceeds from the issuance of convertible notes. We used the proceeds from our debt and equity financing activities to originate a net $1.8 billion of new loans during the year ended December 31, 2013. Refer to Notes 13 and 10 to our consolidated financial statements for additional discussion of our sale of shares of class A common stock and our debt obligations, respectively. Refer to Note 5 to our consolidated financial statements for further discussion of our loan origination activity.

We experienced a net decrease in cash of $19.4 million for the year ended December 31, 2012, compared to a net decrease of $10.4 million for the year ended December 31, 2011. The decrease was primarily due to the financing and investing activities associated with securitization vehicles that were consolidated in 2011, but were subsequently deconsolidated in 2012.

Our consolidated statements of cash flows also include the cash inflows and outflows of the consolidated entities described in Note 3 to our consolidated financial statements. While this does not impact our net cash flow, it does increase certain gross cash flow disclosures. As discussed above, other than to the extent we receive cash distributions from the entities in our CT Legacy Portfolio, we generally do not have access to their liquidity.

**Income Taxes**

We elected to be taxed as a REIT, effective January 1, 2003, under the Internal Revenue Code for U.S. federal income tax purposes. We generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws.

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years. As of December 31, 2013 and December 31, 2012, we were in compliance with all REIT requirements.

During the year ended December 31, 2013, we recorded a current income tax provision of $995,000 primarily related to our taxable REIT subsidiaries. As a result of our sale of CTIMCO we no longer have any deferred tax assets or liabilities as of December 31, 2012.

As a result of our issuance of 25,875,000 shares of class A common stock in May 2013, the availability of our net operating losses, or NOLs, and net capital losses, or NCLs, is generally limited to $2.0 million per annum by change of control provisions promulgated by the Internal Revenue Service with respect to the ownership of Blackstone Mortgage Trust. As of December 31, 2013, we had NOLs of $158.4 million and NCLs of $48.0 million available to be carried forward and utilized in current or future periods. If we are unable to utilize our NOLs, they will expire in 2029. If we are unable to utilize our NCLs, $16.0 million will expire in 2014, $31.4 million will expire in 2015, and $602,000 will expire in 2017.

As of December 31, 2013, tax years 2010 through 2013 remain subject to examination by taxing authorities.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. During 2013, our Manager reviewed and evaluated its critical accounting policies and believes them to be appropriate. Our significant accounting policies are described in Note 2 to our consolidated financial statements. The following is a summary of those of our significant accounting policies that we believe are the most affected by our Manager s judgments, estimates and assumptions:

*Principles of Consolidation and Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. These statements include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries, majority-owned subsidiaries, and variable interest entities, or VIEs, of which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. Certain of the assets and credit of our consolidated subsidiaries are not available to satisfy the debt or other obligations of us, our affiliates, or other entities.

VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest, and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary, and is generally the entity with (i) the power to direct the activities that most significantly impact the VIE s economic performance, and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

We have separately presented, following our consolidated balance sheet, the assets of consolidated VIEs that can only be used to satisfy the obligations of those VIEs, and the liabilities of consolidated VIEs that are non-recourse to us. We have aggregated all of such assets and liabilities of consolidated VIEs in this presentation due to our determination that these entities are substantively similar and therefore a further disaggregated presentation would not be more meaningful.

Our subsidiary, CT Legacy Partners, accounts for its operations in accordance with industry-specific GAAP accounting guidance for investment companies, pursuant to which it reports its investments at fair value. We have retained this specialized accounting in consolidation and, accordingly, report the loans and other investments of CT Legacy Partners at fair value on our consolidated balance sheet.

As more fully described in Note 3 to our consolidated financial statements, we sold our investment management business to Blackstone in December 2012. As a result, the income and expense items related to our investment management business have been reclassified to income from discontinued operations on our consolidated statements of operations.

*Revenue Recognition*

Interest income from our loans receivable is recognized over the life of the investment using the effective interest method and is recorded on the accrual basis. Fees, premiums, discounts and direct costs associated with these investments are deferred until the loan is advanced and are then recognized over the term of the loan as an adjustment to yield. Income accrual is generally suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of our Manager, recovery of income and principal becomes doubtful. Income is then recorded on the basis of cash received until accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

*Loans Receivable and Provision for Loan Losses*

We purchase and originate commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. We are required to periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is determined to be impaired, we write down the loan through a charge to the provision for loan losses. Impairment of these loans is measured by comparing the estimated fair value of the underlying collateral to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by our Manager. Actual losses, if any, could ultimately differ from these estimates.

Our Manager performs a quarterly review of our portfolio of loans. In conjunction with this review, our Manager assesses the performance of each loan, and assigns a risk rating based on several factors including risk of loss, loan-to-value ratio, or LTV, collateral performance, structure, exit plan, and sponsorship.

Loans are rated 1 through 8, from less risk to greater risk, which ratings are defined as follows:

**1 - Low Risk:** A loan that is expected to perform through maturity, with relatively lower LTV, higher in- place debt yield, and stable projected cash flow.

2 - **Average Risk:** A loan that is expected to perform through maturity, with medium LTV, average in-place debt yield, and stable projected cash flow.

3 - **Acceptable Risk:** A loan that is expected to perform through maturity, with relatively higher LTV, acceptable in-place debt yield, and some uncertainty (due to lease rollover or other factors) in projected cash flow.

4 - **Higher Risk:** A loan that is expected to perform through maturity, but has exhibited a material deterioration in cash flow and/or other credit factors. If negative trends continue, default could occur.

5 - **Low Probability of Default/Loss:** A loan with one or more identified weakness that we expect to have a 15% probability of default or principal loss.

6 - **Medium Probability of Default/Loss:** A loan with one or more identified weakness that we expect to have a 33% probability of default or principal loss.

7 - **High Probability of Default/Loss:** A loan with one or more identified weakness that we expect to have a 67% or higher probability of default or principal loss.

8 - **In Default:** A loan which is in contractual default and/or which has a very high likelihood of principal loss.

*Loans Held-for-Sale and Related Allowance*

In certain cases, we may classify loans as held-for-sale based upon the specific facts and circumstances of particular loans, including known or expected transactions. Loans held-for-sale are carried at the lower of their amortized cost basis or fair value less cost to sell. A reduction in the fair value of loans held-for-sale is recorded as a charge to our consolidated statement of operations as a valuation allowance on loans held-for-sale.

*Convertible Notes*

The Debt with Conversion and Other Options Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or Codification, requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. The initial proceeds from the sale of convertible notes are allocated between a liability component and an equity component in a manner that reflects interest expense at the rate of similar nonconvertible debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. We measured the fair value of the debt component of our convertible notes as of the issuance date based on our nonconvertible debt borrowing rate. The equity component of the convertible notes is reflected within additional paid-in capital on our consolidated balance sheet as of December 31, 2013, and the resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding (the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to the convertible notes will increase in subsequent periods through the maturity date as the notes accrete to their par value over the same period.

*Fair Value of Financial Instruments*

The Fair Value Measurements and Disclosures Topic of the Codification, defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements under GAAP. Specifically, this guidance defines fair value based on exit price, or the price that would be received upon the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date.

The Fair Value Measurement and Disclosures Topic of the Codification also establishes a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring financial instruments. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument, and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination, as follows:

Level 1 Generally includes only unadjusted quoted prices that are available in active markets for identical financial instruments as of the reporting date.

Level 2 Pricing inputs include quoted prices in active markets for similar instruments, quoted prices in less active or inactive markets for identical or similar instruments where multiple price quotes can be obtained, and other observable inputs such as interest rates, yield curves, credit risks, and default rates.

Level 3 Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. These inputs require significant judgment or estimation by management of third parties when determining fair value and generally represent anything which does not meet the criteria of Levels 1 and 2.

Each type of asset recorded at fair value using Level 3 inputs are determined by an internal committee comprised of members of senior management of our Manager, including our chief executive officer, chief financial officer, and other senior officers.

Certain of our assets and liabilities are measured at fair value either (i) on a recurring basis, as of each quarter-end, or (ii) on a nonrecurring basis, as a result of impairment or other events. Our assets and liabilities that are measured at fair value are discussed further in Note 18 to our consolidated financial statements. Generally, loans held-for-sale and certain of our loans receivable and securities are measured at fair value on a recurring basis, while impaired loans are measured at fair value on a nonrecurring basis.

The following valuation techniques were used to estimate the fair value of each type of asset and liability which was recorded at fair value:

*Loans receivable, at fair value* Loans receivable are generally valued by discounting expected cash flows using internal cash flow models and estimated market rates. Expected cash flows of each loan are based on our Manager s assumptions regarding the collection of principal and interest from the respective borrowers.

*Other assets, at fair value* Our other assets balance include certain commercial mortgage-backed securities, collateral debt obligations, and equity investments and are generally valued by a combination of (i) obtaining assessments from third-party dealers and (ii) in cases where such assessments are unavailable or deemed not to be indicative of fair value, discounting expected cash flows using internal cash flow models and estimated market discount rates. In the case of internal models, expected cash flows of each security are based on assumptions regarding the collection of principal and interest on the underlying loans and securities.

*Impaired loans* Loans identified as impaired are collateral dependent loans. Impairment on these loans is measured by comparing our Manager s estimation of fair value of the underlying collateral less costs to sell, to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by our Manager.

*Investment in CT Legacy Asset* We arrived at the fair value of our investment in CT Legacy Asset by discounting the net cash flows expected to be distributed to its equity holders after the repayment of the repurchase facility. To determine the net cash flows of CT Legacy Asset, our Manager estimated the timing and recovery amount for each of its assets.

We are also required by GAAP to disclose fair value information about financial instruments, which are otherwise not reported in the statement of financial position at fair value, to the extent it is practicable to estimate a fair value for those instruments. In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the estimated market discount rate and the estimated future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate settlement of the instrument. Rather, these fair values reflect the amounts that our Manager believes are realizable in an orderly transaction among willing parties. These disclosure requirements exclude certain financial instruments and all non-financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments, excluding those described above that are carried at fair value, for which it is practicable to estimate that value:

*Cash and cash equivalents* The carrying amount of cash on deposit and in money market funds approximates fair value.

*Restricted cash* The carrying amount of restricted cash approximates fair value.

*Loans receivable, net* Other than impaired loans, these assets are recorded at their amortized cost and not at fair value. The fair values for these instruments are estimated by our Manager taking into consideration factors including capitalization rates, leasing, occupancy rates, availability and cost of financing, exit plan, sponsorship, actions of other lenders and indications of market value from other market participants.

S*ecured notes* These notes are recorded at their aggregate principal balance and not at fair value. The fair value was estimated based on the rate at which a similar instrument would be priced today.

*Repurchase obligations* These facilities are recorded at their aggregate principal balance and not at fair value. The fair value was estimated based on the rate at which a similar credit facility would be priced today.

*Convertible notes, net* These notes are recorded at their amortized cost, and not at fair value. These convertible notes are publicly traded and their fair values are obtained using quoted market prices.

*Securitized debt obligations* These obligations are recorded at the face value of outstanding obligations to third-parties and not at fair value. The fair values for these instruments have been estimated by obtaining assessments from third party dealers.

*Participations sold* These obligations are recorded at their face value and not at fair value. The fair value was estimated based on the value of the related loan receivable asset.

*Income Taxes*

Our financial results generally do not reflect provisions for current or deferred income taxes on our REIT taxable income. We believe that we operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, we generally do not expect to pay substantial corporate level taxes other than those payable by our taxable REIT subsidiaries. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we may be subject to federal, state and local income tax on current and past income, and penalties. Refer to Note 16 to our consolidated financial statements for additional information.

**Recent Accounting Pronouncements**

Refer to Note 2 to our consolidated financial statements for a discussion of the impact of recent accounting pronouncements on our business. There have been no accounting pronouncements issued but not yet adopted by us that we believe will have a significant impact on our consolidated financial statements.

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## V. Loan Portfolio Details

The following table provides details of the Loan Origination segment s portfolio, on a loan-by-loan basis, as of December 31, 2013 ($ in millions):

| Loan Type[1] | Principal Balance | Book Balance | Cash Coupon[2] | All-in Yield[2] | Maximum Maturity[3] | Geographic Location | Property Type | Origination LTV | Risk Rating as of De 2013 | 201 |
|---|---|---|---|---|---|---|---|---|---|---|
| Senior mortgage loan | $ 194.0 | $ 193.2 | L + 3.80% | L + 3.97%[4] | 6/15/2018 | CA | Office | 51% | 2 | N/A |
| Senior mortgage loan | 181.0 | 179.3 | L + 4.50% | L + 4.86% | 11/9/2018 | NY | Multifamily | 68% | 3 | N/A |
| Sub. mortgage part. | 173.8 | 166.2 | L + 5.66% | L + 9.25% | 4/9/2015 | WA | Office | 67% | 3 | N/A |
| Senior mortgage loan | 140.0 | 138.6 | L + 4.75% | L + 5.27%[4] | 1/9/2019 | NY | Office | 70% | 3 | N/A |
| Senior mortgage loan | 140.0 | 139.7 | L + 3.70% | L + 3.83% | 9/30/2020 | NY | Diversified | 67% | 3 | N/A |
| Senior mortgage loan | 89.8 | 89.2 | L + 4.38% | L + 4.63% | 11/9/2018 | CA | Hotel | 71% | 2 | N/A |
| Senior mortgage loan | 87.0 | 86.5 | L + 4.25% | L + 4.64% | 8/10/2018 | Diversified | Diversified | 61% | 3 | N/A |
| Senior mortgage loan | 81.0 | 80.7 | L + 3.85% | L + 4.03% | 7/9/2018 | GA | Multifamily | 75% | 3 | N/A |
| Senior mortgage loan | 70.3 | 70.1 | L + 3.95% | L + 3.89%[4] | 6/9/2018 | CA | Office | 71% | 2 | N/A |
| Senior mortgage loan | 68.0 | 67.8 | L + 4.00% | L + 4.23% | 6/10/2016 | NY | Office | 68% | 3 | N/A |
| Senior mortgage loan | 67.7 | 67.0 | L + 5.00% | L + 5.44% | 9/14/2018 | Diversified | Other | 66% | 3 | N/A |
| Senior mortgage loan | 64.0 | 64.5 | L + 8.00% | L + 9.46%[4] | 2/9/2015 | NY | Other | 69% | 3 | N/A |
| Senior mortgage loan | 63.2 | 62.7 | L + 5.00% | L + 5.30% | 11/6/2016 | NY | Multifamily | 59% | 3 | N/A |
| Senior mortgage loan | 57.1 | 56.5 | L + 3.85% | L + 4.24% | 10/10/2018 | Diversified | Multifamily | 76% | 3 | N/A |
| Senior mortgage loan | 48.4 | 48.5 | L + 5.00% | L + 5.68%[4] | 12/9/2016 | IL | Hotel | 53% | 3 | N/A |
| Senior mortgage loan | 46.3 | 45.9 | L + 4.25% | L + 4.64% | 7/10/2018 | CO | Hotel | 69% | 3 | N/A |
| Senior mortgage loan | 46.0 | 45.6 | L + 4.25% | L + 4.78% | 10/9/2018 | CA | Hotel | 51% | 3 | N/A |
| Senior mortgage loan | 45.9 | 45.2 | L + 5.00% | L + 6.07% | 8/9/2018 | VA | Office | 72% | 3 | N/A |
| Senior mortgage loan | 43.5 | 43.1 | L + 4.50% | L + 5.11% | 7/16/2017 | NY | Other | 69% | 3 | N/A |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Senior mortgage loan | 42.6 | 42.1 | L + 3.85% | L + 4.20% | 9/10/2018 | Diversified | Multifamily | 77% | 3 | N/ |
| Senior mortgage loan | 42.0 | 41.5 | L + 4.50% | L + 4.94% | 1/9/2019 | AZ | Office | 67% | 3 | N/ |
| Senior mortgage loan | 37.3 | 37.2 | L + 4.63% | L + 5.49% | 11/27/2018 | U.K. | Office | 68% | 3 | N/ |
| Senior mortgage loan | 37.5 | 37.2 | L + 3.85% | L + 4.04% | 8/9/2018 | IL | Office | 68% | 2 | N/ |
| Mezzanine loan(5) | 33.5 | 33.7 | L + 12.56% | L + 12.35% | 12/13/2017 | NY | Multifamily | 77% | 3 | N/ |
| Senior mortgage loan | 32.9 | 33.0 | L + 3.95% | L + 4.20%(4) | 8/9/2017 | CO | Hotel | 64% | 2 | N/ |
| Senior mortgage loan | 31.0 | 30.5 | L + 4.10% | L + 4.64% | 1/9/2019 | CA | Office | 43% | 3 | N/ |
| Senior mortgage loan | 28.0 | 27.7 | L + 4.35% | L + 4.71% | 12/9/2018 | CA | Hotel | 55% | 3 | N/ |
| Senior mortgage loan | 27.1 | 27.1 | L + 3.87% | L + 3.87% | 7/9/2017 | NY | Hotel | 32% | 1 | N/ |
| | $ 2,018.9 | $ 2,000.2 | L + 4.64% | L + 5.28% | 4.2 years | | | 65% | 2.8 | N/ |

(1) Includes senior mortgage loans, related contiguous subordinate loans with a net book value of $68.6 million, and pari passu participations in mortgages.
(2) All loans are floating rate loans indexed to LIBOR as of December 31, 2013.
(3) Maximum maturity date assumes all extension options are exercised.
(4) Minimum LIBOR floor ranging from 0.20% to 1.00%.
(5) We originated the loan directly senior to this subordinate loan, but sold the senior loan to finance our overall investment.

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The following table provides details of our CT Legacy Portfolio segment loan portfolios, on a loan-by-loan basis as of December 31, 2013 ($ in millions):

| | Loan Type | Principal Balance(1) | Book Balance(2) | Cash Coupon(3) | All-in Yield(3) | Maximum Maturity(4) | Geographic Location | Property Type | Risk Rating as of December 31 2013 | Risk Rating as of December 31 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **CT Legacy Partners** | | | | | | | | | | |
| 1 | Mezzanine loan | $ 19.6 | $ 19.8 | 8.00% | 8.00% | 9/1/2014 | Northeast | Office | 1 | 2 |
| 2 | Senior mortgage loan | 15.0 | 15.0 | L + 4.00%(5) | L + 4.00%(5) | 12/9/2014 | West | Hotel | 4 | 4 |
| 3 | Mezzanine loan | 8.0 | 2.0 | L + 4.75% | L + 4.75% | 1/8/2014 | Northeast | Office | 7 | 3 |
| 4 | Mezzanine loan | 4.4 | 3.9 | 8.77% | 8.77% | 2/1/2016 | Northeast | Office | 4 | 4 |
| | | 47.0 | 40.7 | 6.24% | 6.24% | 0.9 years | | | 3.3 | 3.0 |
| **CT CDO I** | | | | | | | | | | |
| 1 | Sub. mortgage participation | 27.0 | 27.0 | L + 3.53% | L + 3.53% | 1/8/2014 | Northeast | Office | 7 | 3 |
| 2 | Sub. mortgage participation | 20.0 | 20.0 | L + 6.06% | L + 6.06% | 4/9/2014 | Diversified | Office | 2 | 2 |
| | | 47.0 | 47.0 | L + 4.61% | L + 4.61% | 0.1 years | | | 4.9 | 2.6 |
| | | $ 94.0 | $ 94.0 | 5.42% | 5.36% | 0.5 years | | | 4.1 | 2.8 |

(1) Table excludes three CT Legacy Partner loans with an aggregate principal balance of $98.3 million and one CT CDO I loan with a principal balance of $10.5 million which were 100% impaired as of as of December 31, 2013.
(2) Represents the fair value of each CT Legacy Partner loan as of December 31, 2013.
(3) All floating rate loans are indexed to LIBOR as of December 31, 2013. LIBOR was 0.17% as of December 31, 2013.
(4) Maximum maturity date assumes all extension options are exercised.
(5) Minimum LIBOR floor of 2.00%.

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## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

Our business is exposed to the risks related to interest rate fluctuations. We generally originate floating rate assets and finance those assets with index-matched floating rate liabilities. As a result, we significantly reduce our exposure to changes in portfolio value related to changes in interest rates.

Our investments in fixed rate assets are generally exposed to changes in value due to interest rate fluctuations, and our investments in floating rate assets are generally exposed to cash flow variability from fluctuations in rates.

*Loan Origination Portfolio segment*

Our Loan Origination investments are exposed to the risks related to interest rate fluctuations discussed above. The table below details our interest rate exposure to this portfolio ($ in thousands):

| | December 31, 2013 | |
|---|---|---|
| Floating rate assets[1] | $ | 2,018,863 |
| Floating rate debt[1][2] | | (1,199,353) |
| Net floating rate exposure | $ | 819,510 |
| Net income impact from 100 bps increase in LIBOR[3] | $ | 8,195 |

(1) All values are in terms of face or notional amounts.
(2) Includes borrowings under repurchase facilities and loan participations sold.
(3) Excludes the impact of LIBOR floors on certain of our loans receivable investments.

*CT Legacy Portfolio segment*

Our investments in CT Legacy Partners and CT CDO I are exposed to the risks related to interest rate fluctuations discussed above. A 100 basis point increase in LIBOR would result in an increase in net income of $170,000 in CT Legacy Partners and $68,000 in CT CDO I, respectively.

Although our carried interest investment in CTOPI generally relates to a portfolio of interest earning assets, our economic interest in this portfolio relates primarily to the realization of investments purchased at a discount by CTOPI. Accordingly, our investment in this portfolio is not exposed to a significant degree of interest rate risk. Refer to Note 9 to our consolidated financial statements for additional discussion of CTOPI.

*Risk of Non-Performance*

In addition to the risks related to fluctuations in asset values and cash flows associated with movements in interest rates, there is also the risk of non-performance on floating rate assets. In the case of a significant increase in interest rates, the additional debt service payments due from our borrowers may strain the operating cash flows of the collateral real estate assets and, potentially, contribute to non-performance or, in severe cases, default.

**Credit Risks**

Our loans and investments are also subject to credit risk. The performance and value of our loans and investments depend upon the owners ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, our Manager s asset management team reviews our investment portfolios and in certain instances is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary.

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In addition, we are exposed to the risks generally associated with the commercial real estate market, including variances in occupancy rates, capitalization rates, absorption rates, and other macroeconomic factors beyond our control. We seek to manage these risks through our underwriting and asset management processes.

**Capital Market Risks**

We are exposed to risks related to the equity capital markets, and our related ability to raise capital through the issuance of our class A common stock or other equity instruments. We are also exposed to risks related to the debt capital markets, and our related ability to finance our business through borrowings under repurchase obligations or other debt instruments. As a REIT, we are required to distribute a significant portion of our taxable income annually, which constrains our ability to accumulate operating cash flow and therefore requires us to utilize debt or equity capital to finance our business. We seek to mitigate these risk by monitoring the debt and equity capital markets to inform our decisions on the amount, timing, and terms of capital we raise.

**Counterparty Risk**

The nature of our business requires us to hold our cash and cash equivalents, obtain financing from, and enter into hedging agreements with various financial institutions. This exposes us to the risk that these financial institutions may not fulfill their obligations to us under these various contractual arrangements. We mitigate this exposure by depositing our cash and cash equivalents, and entering into financing and hedging agreements with high credit quality institutions.

The nature of our loans and investments also expose us to the risk that our counterparties do not make required interest and principal payments on scheduled due dates. We seek to manage this risk through a comprehensive credit analysis prior to making an investment and actively monitoring the asset portfolios that serve as our collateral.

**Currency Risk**

Our loans and investments that are denominated in a foreign currency are also subject to risks related to fluctuations in currency rates. We plan to mitigate this exposure by matching the currency of our foreign currency assets to the currency of the borrowings that finance those assets. As a result, we would substantially reduce our exposure to changes in portfolio value related to changes in foreign currency rates.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item and the reports of the independent accountants thereon required by Item 14(a)(2) appear on pages F-2 to F-48. See accompanying Index to the Consolidated Financial Statements on page F-1. The supplementary financial data required by Item 302 of Regulation S-K appears in Note 22 to the consolidated financial statements.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Exchange Act as of the end of the period covered by this annual report on Form 10-K was made under the supervision and with the participation of our management, including our Chief

Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Controls**

During the quarter ended December 31, 2013, we completed the implementation of a new general ledger and consolidation system. The new system was implemented to increase the overall efficiency of our financial reporting process and not in response to any deficiency or weakness in our internal control over financial reporting. There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a 15(f) and 15d 15(f) under the Exchange Act) that occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Management s Report on Internal Control Over Financial Reporting**

Management of Blackstone Mortgage Trust, Inc. and subsidiaries, or Blackstone Mortgage Trust, is responsible for establishing and maintaining adequate internal control over financial reporting. Blackstone Mortgage Trust s internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America, or generally accepted accounting principles.

Blackstone Mortgage Trust s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Blackstone Mortgage Trust s assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Blackstone Mortgage Trust s internal control over financial reporting as of December 31, 2013, based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on this assessment, management has determined that Blackstone Mortgage Trust s internal control over financial reporting as of December 31, 2013, was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Blackstone Mortgage Trust s financial statements included in this annual report on Form 10-K and issued its report on the effectiveness of Blackstone Mortgage Trust s internal control over financial reporting as of December 31, 2013, which is included herein.

**ITEM 9B. OTHER INFORMATION**

None.

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## PART III.

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the Company s definitive proxy statement to be filed not later than April 30, 2014 with the SEC pursuant to Regulation 14A under the Exchange Act.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the Company s definitive proxy statement to be filed not later than April 30, 2014 with the SEC pursuant to Regulation 14A under the Exchange Act.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the Company s definitive proxy statement to be filed not later than April 30, 2014 with the SEC pursuant to Regulation 14A under the Exchange Act.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to our definitive proxy statement to be filed not later than April 30, 2014 with the SEC pursuant to Regulation 14A under the Exchange Act.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference to our definitive proxy statement to be filed not later than April 30, 2014 with the SEC pursuant to Regulation 14A under the Exchange Act.

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## PART IV.

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

See the accompanying Index to Financial Statement Schedule on page F-1.

(a) (2) Consolidated Financial Statement Schedules

See the accompanying Index to Financial Statement Schedule on page F-1.

(a) (3) Exhibits

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## EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
| --- | --- |
| 2.1 | Purchase and Sale Agreement, dated September 27, 2012, by and between Capital Trust, Inc. and Huskies Acquisition LLC (filed as Exhibit 2.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on October 3, 2012 and incorporated herein by reference) |
| 3.1.a | Articles of Amendment and Restatement (filed as Exhibit 3.1.a to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on April 2, 2003 and incorporated herein by reference) |
| 3.1.b | Certificate of Notice (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on February 27, 2007 and incorporated herein by reference) |
| 3.1.c | Articles Supplementary for Series A Junior Participating Preferred Stock (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on March 3, 2011 and incorporated herein by reference) |
| 3.1.d | Articles of Amendment (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference) |
| 3.1.e | Articles of Amendment (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 7, 2013 and incorporated herein by reference) |
| 3.1.f | Articles Supplementary (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 29, 2013 and incorporated herein by reference) |
| 3.2 | Third Amended and Restated Bylaws of Capital Trust, Inc. (filed as Exhibit 3.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference) |
| 4.4 | Indenture, dated as of November 25, 2013, between Blackstone Mortgage Trust, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on November 25, 2013 and incorporated herein by reference). |
| 4.5 | First Supplemental Indenture, dated as of November 25, 2013, between Blackstone Mortgage Trust, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on November 25, 2013 and incorporated herein by reference) |
| 4.6 | Form of 5.25% Convertible Senior Note due 2018 (included as Exhibit A in Exhibit 4.5) |
| 10.1 | Amended and Restated Management Agreement, dated as of March 26, 2013, by and between Capital Trust, Inc. and BREDS/CT Advisors L.L.C. (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on March 26, 2013 and incorporated herein by reference) |
| 10.2 | Amendment No. 1 to Amended and Restated Management Agreement, dated as of July 30, 2013, by and between Blackstone Mortgage Trust, Inc. and BXMT Advisors L.L.C. (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference) |

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| 10.3 | Trademark License Agreement, dated May 6, 2013, by and between Blackstone Mortgage Trust, Inc. (f/k/a Capital Trust, Inc.) and Blackstone TM L.L.C. (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 7, 2013 and incorporated herein by reference) |

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| Exhibit Number | | Exhibit Description |
|---|---|---|
| 10.4 | | Assignment Agreement, dated as of December 19, 2012, by and among Huskies Acquisition LLC, Blackstone Holdings III L.P. and Capital Trust, Inc. (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference) |
| 10.5 | + | Capital Trust, Inc. Amended and Restated 1997 Non-Employee Director Stock Plan (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on January 29, 1999 and incorporated herein by reference) |
| 10.6 | + | Capital Trust, Inc. 2007 Long-Term Incentive Plan (the 2007 Plan ) (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on June 12, 2007 and incorporated herein by reference) |
| 10.7 | + | 2007 Amendment to the 2007 Plan (filed as Exhibit 10.20 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on March 5, 2008 and incorporated herein by reference) |
| 10.8 | + | Capital Trust, Inc. 2011 Long-Term Incentive Plan (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on June 28, 2011 and incorporated herein by reference) |
| 10.9 | + | Form of Annual Bonus Award Agreement (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on August 1, 2012 and incorporated herein by reference) |
| 10.10 | + | Form of Restricted Share Award Agreement relating to the Capital Trust, Inc. 2011 Long-Term Incentive Plan (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on August 1, 2012 and incorporated herein by reference) |
| 10.11 | + | Form of Special Transaction Bonus Award Agreement (filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on August 1, 2012 and incorporated herein by reference) |
| 10.12 | + | Blackstone Mortgage Trust, Inc. 2013 Stock Incentive Plan (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on July 1, 2013 and incorporated herein by reference) |
| 10.13 | + | Form of Restricted Stock Award of Blackstone Mortgage Trust, Inc. 2013 Stock Incentive Plan (filed as Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference) |
| 10.14 | + | Blackstone Mortgage Trust, Inc. 2013 Manager Incentive Plan (filed as Exhibit 10.5 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on July 1, 2013 and incorporated herein by reference) |
| 10.15 | + | Form of Restricted Stock Award of Blackstone Mortgage Trust, Inc. 2013 Manager Incentive Plan (filed as Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference) |
| 10.16 | + | Summary of Non-Employee Director Compensation (filed as Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference) |
| 10.17 | | |

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| | Form of Indemnification Agreement (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference) |
| 10.18 | Amended and Restated Registration Rights Agreement, dated May 6, 2013, by and among Blackstone Mortgage Trust, Inc., Blackstone Holdings III L.P. and BREDS/CT Advisors L.L.C. (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on May 6, 2013 and incorporated herein by reference) |

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| Exhibit Number | Exhibit Description |
|---|---|
| 10.19 | Securities Purchase Agreement, dated as of May 11, 2004, by and among Capital Trust, Inc., W. R. Berkley Corporation and certain stockholders of Capital Trust, Inc. (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 10, 2010 and incorporated herein by reference) |
| 10.20 | Registration Rights Agreement dated as of May 11, 2004, by and between Capital Trust, Inc. and W. R. Berkley Corporation (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 11, 2004 and incorporated herein by reference) |
| 10.21 | Limited Liability Company Agreement of 42-16 Partners, LLC, dated as of May 13, 2013, by and between Blackstone Mortgage Trust, Inc. and Blackstone Holdings Finance Co. L.L.C. (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 17, 2013 and incorporated herein by reference) |
| 10.22 | Letter Agreement, dated as of May 13, 2013, by and between Blackstone Mortgage Trust, Inc. and Blackstone Holdings Finance Co. L.L.C. (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 17, 2013 and incorporated herein by reference) |
| 10.23 | Master Repurchase Agreement, dated as of May 21, 2013, by and between Bank of America, N.A. and Parlex 1 Finance, LLC (filed as Exhibit 10.25 of the Registrant s Registration Statement on Form S-11 (No. 333-187541) filed on May 22, 2013 and incorporated herein by reference) |
| 10.24 | Amendment No. 1 to Master Repurchase Agreement, dated as of September 23, 2013, by and between Bank of America, N.A. and Parlex 1 Finance, LLC (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference) |
| 10.25 | Guarantee Agreement, dated as of May 21, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Bank of America, N.A. (filed as Exhibit 10.26 of the Registrant s Registration Statement on Form S-11 (No. 333-187541) filed on May 22, 2013 and incorporated herein by reference) |
| 10.26 | Amendment No. 1 to Guarantee Agreement, dated as of September 23, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Bank of America, N.A. (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference) |
| 10.27 | Joinder Agreement, dated as of September 23, 2013, by Parlex 1 Finance, LLC, Parlex 3 Finance LLC and Bank of America, N.A. (filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference) |
| 10.28 | Master Repurchase and Securities Contract, dated as of June 7, 2013, by and between Wells Fargo Bank, National Association and SVP 2013 Finance, LLC (filed as Exhibit 10.8 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference) |
| 10.29 | Limited Guarantee Agreement, dated as of June 7, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Wells Fargo Bank, National Association (filed as Exhibit 10.9 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference) |
| 10.30 | |

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| | Master Repurchase Agreement, dated as of June 12, 2013, by and between Citibank, N.A. and Parlex 2 Finance, LLC (filed as Exhibit 10.10 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference) |
| 10.31 | First Amendment to Master Repurchase Agreement, dated as of July 26, 2013, by and between Citibank, N.A., Parlex 2 Finance, LLC, and Blackstone Mortgage Trust, Inc. (filed as Exhibit 10.16 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference) |

| Exhibit Number | Exhibit Description |
|---|---|
| 10.32 | Limited Guaranty, dated as of June 12, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Citibank, N.A. (filed as Exhibit 10.11 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference) |
| 10.33 | Master Repurchase Agreement, dated as of June 28, 2013, by and between JPMorgan Chase Bank, National Association and Parlex 4 Finance, LLC (filed as Exhibit 10.12 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference) |
| 10.34 | Amendment No. 1 to Master Repurchase Agreement, dated as of December 20, 2013, by and between JPMorgan Chase Bank, National Association and Parlex 4 Finance, LLC |
| 10.35 | Guarantee Agreement, dated as of June 28, 2013, made by Blackstone Mortgage Trust, Inc. in favor of JPMorgan Chase Bank, National Association (filed as Exhibit 10.13 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference) |
| 10.36 | Master Repurchase Agreement, dated as of December 20, 2013, among JPMorgan Chase Bank, National Association and Parlex 4 UK Finance, LLC and Parlex 4 Finance, LLC |
| 10.37 | Guarantee Agreement, dated as of December 20, 2013, made by Blackstone Mortgage Trust, Inc. in favor of JPMorgan Chase Bank, National Association |
| 10.38 | Agreement of Lease dated as of May 3, 2000, between 410 Park Avenue Associates, L.P., owner, and Capital Trust, Inc., tenant (filed as Exhibit 10.11 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on April 2, 2001 and incorporated herein by reference) |
| 10.39 | Additional Space, Lease Extension and First Lease Modification Agreement, dated as of May 23, 2007, by and between 410 Park Avenue Associates, L.P. and Capital Trust, Inc. (filed as Exhibit 10.74 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on March 5, 2008 and incorporated herein by reference) |
| 10.40 | Assignment and Assumption of Lease, dated as of December 19, 2012, by and between Capital Trust, Inc. and Blackstone Holdings I L.P. (filed as Exhibit 10.5 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference) |
| 10.41 | Consent to Assignment of Lease, and Fifth Lease Modification Agreement, dated December 19, 2012, between 410 Park Avenue Associates, L.P., Blackstone Holdings I L.P. and Capital Trust, Inc. (filed as Exhibit 10.6 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference) |
| 11.1 | Statements regarding Computation of Earnings per Share (Data required by Statement of Financial Accounting Standard No. 128, Earnings per Share, is provided in Note 13 to the consolidated financial statements contained in this report) |
| 21.1 | Subsidiaries of Blackstone Mortgage Trust, Inc. |
| 23.1 | Consent of Deloitte & Touche LLP |
| 23.2 | Consent of Ernst & Young LLP |
| 31.1 | Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

| | |
|---|---|
| 31.2 | Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

| Exhibit Number | | Exhibit Description |
|---|---|---|
| 32.1 | | Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 32.2 | | Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 99.1 | | Section 13(r) Disclosure |
| 101.INS | ++ | XBRL Instance Document |
| 101.SCH | ++ | XBRL Taxonomy Extension Schema Document |
| 101.CAL | ++ | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | ++ | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | ++ | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | ++ | XBRL Taxonomy Extension Definition Linkbase Document |

\+ Represents a management contract or compensatory plan or arrangement.
Filed herewith.

++ Attached as Exhibit 101 to this Annual Report on Form 10-K are the following materials, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 31, 2013, 2012, and 2011; (ii) the Consolidated Statements of Operations for the years ended December 31, 2013, 2012, and 2011; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012, and 2011; (iv) the Consolidated Statements of Changes in (Deficit) Equity for the years ended December 31, 2013, 2012, and 2011; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012, and 2011; and (vi) Notes to Consolidated Financial Statements.

Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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## SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| February 18, 2014 | /s/ Stephen D. Plavin |
| Date | Stephen D. Plavin |
| | Chief Executive Officer |
| | (Principal executive officer) |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| | |
|---|---|
| February 18, 2014 | /s/ Michael B. Nash |
| Date | Michael B. Nash |
| | Executive Chairman of the Board of Directors |
| February 18, 2014 | /s/ Stephen D. Plavin |
| Date | Stephen D. Plavin |
| | Chief Executive Officer and Director |
| | (Principal executive officer) |
| February 18, 2014 | /s/ Paul D. Quinlan |
| Date | Paul D. Quinlan |
| | Chief Financial Officer |
| | (Principal financial officer) |
| February 18, 2014 | /s/ Anthony F. Marone, Jr. |
| Date | Anthony F. Marone, Jr. |
| | Principal Accounting Officer |
| February 18, 2014 | /s/ Thomas E. Dobrowski |

| | |
|---|---|
| Date | Thomas E. Dobrowski, Director |
| February 18, 2014 | /s/ Martin L. Edelman |
| Date | Martin L. Edelman, Director |
| February 18, 2014 | /s/ Henry N. Nassau |
| Date | Henry N. Nassau, Director |
| February 18, 2014 | /s/ Joshua A. Polan |
| Date | Joshua A. Polan, Director |
| February 18, 2014 | /s/ Lynne B. Sagalyn |
| Date | Lynne B. Sagalyn, Director |
| February 18, 2014 | /s/ John G. Schreiber |
| Date | John G. Schreiber, Director |

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## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE



Schedules other than those listed are omitted as they are not applicable or the required or equivalent information has been included in the consolidated financial statements or notes thereto.

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Blackstone Mortgage Trust, Inc.

New York, New York

We have audited the accompanying consolidated balance sheet of Blackstone Mortgage Trust, Inc. and subsidiaries (the Company ) as of December 31, 2013, and the related consolidated statements of operations, comprehensive income, changes in (deficit) equity, and cash flows for the year then ended. Our audit also included the 2013 information in the financial statement schedule listed in the Index at Item 15(a). The consolidated financial statements of the Company for the years ended December 31, 2012 and 2011, before the effects of the adjustments to retrospectively apply the one-for-ten reverse stock split discussed in Note 13 to the consolidated financial statements, and the 2012 and 2011 information in the financial statement schedule were audited by other auditors whose report, dated March 26, 2013, expressed an unqualified opinion on those statements. We also have audited the Company s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blackstone Mortgage Trust, Inc. and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such 2013 information in the financial statement schedule, when considered in relation to the basic 2013 consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited the adjustments to the 2013 consolidated financial statements to retrospectively apply the one-for-ten reverse stock, as discussed in Note 13 to the consolidated financial statements. Our procedures included

(1) comparing the amounts shown in the earnings per share disclosures for 2012 and 2011 to the Company s underlying accounting analysis, (2) comparing the previously reported shares outstanding and income statement amounts per the Company s accounting analysis to the previously issued consolidated financial statements, and (3) recalculating the amounts to give effect to the reverse stock split and testing the mathematical accuracy of the underlying analysis. In our opinion, such adjustments are appropriate and have been properly

applied. However, we were not engaged to audit, review, or apply any procedures to the 2012 and 2011 consolidated financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 and 2011 consolidated financial statements taken as a whole.

/s/ Deloitte & Touche LLP

New York, New York

February 18, 2014

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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Capital Trust, Inc.

We have audited the accompanying consolidated balance sheet of Capital Trust, Inc. and Subsidiaries (the Company ) as of December 31, 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity (deficit), and cash flows for each of the two years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2012, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

New York, New York

March 26, 2013

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**Blackstone Mortgage Trust, Inc.**

**Consolidated Balance Sheets**

**(in thousands, except per share data)**

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 52,342 | $ 15,423 |
| Restricted cash | 10,096 | 14,246 |
| Loans receivable, net | 2,047,223 | 141,500 |
| Loans receivable, at fair value | 40,665 | |
| Investment in CT Legacy Asset, at fair value | | 132,000 |
| Equity investments in unconsolidated subsidiaries | 22,480 | 13,306 |
| Accrued interest receivable, prepaid expenses, and other assets | 39,974 | 5,868 |
| **Total assets** | $ 2,212,780 | $ 322,343 |
| **Liabilities and Equity** | | |
| Accounts payable, accrued expenses, and other liabilities | $ 56,972 | $ 21,209 |
| Secured notes | | 8,497 |
| Repurchase obligations | 1,109,353 | |
| Convertible notes, net | 159,524 | |
| Securitized debt obligations | 40,181 | 139,184 |
| Participations sold | 90,000 | |
| **Total liabilities** | 1,456,030 | 168,890 |
| **Equity** | | |
| Class A common stock, $0.01 par value, 100,000 shares authorized, 28,802 and 2,927 shares issued and outstanding as of December 31, 2013 and 2012, respectively | 288 | 293 |
| Restricted class A common stock, $0.01 par value, 700 and zero shares issued and outstanding as of December 31, 2013 and 2012, respectively | 7 | |
| Additional paid-in capital | 1,252,986 | 609,002 |
| Accumulated other comprehensive income | 798 | |
| Accumulated deficit | (536,170) | (535,851) |
| Total Blackstone Mortgage Trust, Inc. stockholders equity | 717,909 | 73,444 |
| Non-controlling interests | 38,841 | 80,009 |
| **Total equity** | 756,750 | 153,453 |
| **Total liabilities and equity** | $ 2,212,780 | $ 322,343 |

continued

*See accompanying notes to consolidated financial statements.*

**Blackstone Mortgage Trust, Inc.**

**Consolidated Balance Sheets**

**(in thousands)**

The following presents the portion of the consolidated balances presented above attributable to consolidated variable interest entities, or VIEs. The following assets may only be used to settle obligations of these consolidated VIEs and these liabilities are only the obligations of consolidated VIEs and their creditors do not have recourse to the general credit of Blackstone Mortgage Trust, Inc.

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Loans receivable, net | $ 47,000 | $ 141,500 |
| Accrued interest receivable, prepaid expenses, and other assets | 2,836 | 4,021 |
| **Total assets** | $ 49,836 | $ 145,521 |
| **Liabilities** | | |
| Accounts payable, accrued expenses, and other liabilities | $ 32 | $ 88 |
| Securitized debt obligations | 40,181 | 139,184 |
| **Total liabilities** | $ 40,213 | $ 139,272 |

*See accompanying notes to consolidated financial statements.*

**Blackstone Mortgage Trust, Inc.**

**Consolidated Statements of Operations**

**(in thousands, except share and per share data)**

| | Year Ended December 31, 2013 | 2012 | 2011 |
|---|---|---|---|
| **Income from loans and other investments** | | | |
| Interest and related income | $ 53,164 | $ 34,939 | $ 117,161 |
| Less: Interest and related expenses | 18,017 | 38,138 | 96,974 |
| **Income (loss) from loans and other investments, net** | 35,147 | (3,199) | 20,187 |
| **Other expenses** | | | |
| Management fees | 5,937 | | |
| General and administrative expenses | 11,505 | 10,369 | 8,982 |
| **Total other expenses** | 17,442 | 10,369 | 8,982 |
| Total other-than-temporary impairments of securities | | | (49,309) |
| Portion of other-than-temporary impairments of securities recognized in other comprehensive income | | (160) | 1,243 |
| Impairment of real estate held-for-sale | | | (1,055) |
| **Net impairments recognized in earnings** | | (160) | (49,121) |
| Recovery of provision for loan losses | | 36,147 | 19,326 |
| Valuation allowance on loans held-for-sale | 1,259 | | (1,456) |
| Gain on investments at fair value | 7,417 | | |
| Fair value adjustment on investment in CT Legacy Asset | | 51,904 | |
| Gain on deconsolidation of subsidiary | | 200,283 | |
| Gain on sale of investments | | 6,000 | |
| Gain on extinguishment of debt | 38 | | 271,031 |
| Income from equity investments in unconsolidated subsidiaries | | 1,781 | 3,649 |
| **Income before income taxes** | 26,419 | 282,387 | 254,634 |
| **Income tax provision** | 995 | 174 | 1,425 |
| **Income from continuing operations** | 25,424 | 282,213 | 253,209 |
| **Loss from discontinued operations, net of tax** | | (2,138) | (890) |
| **Loss on sale of discontinued operations** | | (271) | |
| **Net income** | 25,424 | 279,804 | 252,319 |
| **Net (income) loss attributable to non-controlling interests** | (10,392) | (98,780) | 5,823 |
| **Net income attributable to Blackstone Mortgage Trust, Inc.** | $ 15,032 | $ 181,024 | $ 258,142 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Income from continuing operations per share of common stock** | | | | | | |
| Basic | $ | 0.81 | $ | 78.19 | $ | 114.31 |
| Diluted | $ | 0.81 | $ | 74.16 | $ | 108.17 |
| **Loss from discontinued operations per share of common stock** | | | | | | |
| Basic | $ | | $ | (1.03) | $ | (0.39) |
| Diluted | $ | | $ | (1.03) | $ | (0.39) |
| **Net income per share of common stock** | | | | | | |
| Basic | $ | 0.81 | $ | 77.16 | $ | 113.92 |
| Diluted | $ | 0.81 | $ | 73.13 | $ | 107.78 |
| **Weighted-average shares of common stock outstanding** | | | | | | |
| Basic | | 18,520,052 | | 2,345,943 | | 2,266,043 |
| Diluted | | 18,520,052 | | 2,475,294 | | 2,395,043 |

*See accompanying notes to consolidated financial statements.*

**Blackstone Mortgage Trust, Inc.**

**Consolidated Statements of Comprehensive Income**

**(in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Net income | $ 25,424 | $ 279,804 | $ 252,319 |
| Other comprehensive income | | | |
| Unrealized gain on foreign currency remeasurement | 798 | | |
| Unrealized gain on derivative financial instruments | | 8,367 | 5,453 |
| Gain on interest rate swaps no longer designated as cash flow hedges | | 2,481 | 5,038 |
| Amortization of unrealized gains and losses on securities | | (775) | (908) |
| Amortization of deferred gains and losses on settlement of swaps | | (56) | (109) |
| Other-than-temporary impairments of securities related to fair value adjustments in excess of expected credit losses, net of amortization | | 688 | (326) |
| Other comprehensive income | 798 | 10,705 | 9,148 |
| Comprehensive income | 26,222 | 290,509 | 261,467 |
| Comprehensive (income) loss attributable to non-controlling interests | (10,392) | (98,790) | 6,015 |
| Comprehensive income attributable to Blackstone Mortgage Trust, Inc. | $ 15,830 | $ 191,719 | $ 267,482 |

*See accompanying notes to consolidated financial statements.*

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**Blackstone Mortgage Trust, Inc.**

**Consolidated Statements of Changes in (Deficit) Equity**

**(in thousands)**

| | Class A Common Stock | Restricted Class A Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Blackstone Mortgage Trust, Inc. (Deficit) Equity | Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2010** | $ 219 | $ | $ 559,411 | $ (50,462) | $ (920,355) | $ (411,187) | $ | $ (411,187) |
| Restricted class A common stock earned | 1 | 2 | 418 | | | 421 | | 421 |
| Allocation to non-controlling interests | | | 37,156 | | | 37,156 | (12,623) | 24,533 |
| Purchase of non-controlling interests | | | (142) | | | (142) | | (142) |
| Deferred directors compensation | | | 206 | | | 206 | | 206 |
| Other comprehensive income | | | | 9,340 | | 9,340 | (192) | 9,148 |
| Consolidation of additional securitization vehicles | | | | 538 | (4,898) | (4,360) | | (4,360) |
| Net income | | | | | 258,142 | 258,142 | (5,823) | 252,319 |
| Contributions from non-controlling interests | | | | | | | 125 | 125 |
| Distributions to non-controlling interests | | | | | | | (2) | (2) |
| **Balance at December 31, 2011** | $ 220 | $ 2 | $ 597,049 | $ (40,584) | $ (667,111) | $ (110,424) | $ (18,515) | $ (128,939) |
| Issuance of class A common stock | 50 | | 9,950 | | | 10,000 | | 10,000 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Restricted class A common stock earned | 6 | (2) | 993 | | | 997 | | 997 |
| Shares issued upon exercise of warrants | 17 | | (17) | | | | | |
| Deferred directors compensation | | | 1,027 | | | 1,027 | | 1,027 |
| Other comprehensive income | | | | 10,695 | | 10,695 | 10 | 10,705 |
| Deconsolidation of subsidiaries | | | | 29,889 | | 29,889 | | 29,889 |
| Net income | | | | | 181,024 | 181,024 | 98,780 | 279,804 |
| Dividends declared on common stock | | | | | (49,764) | (49,764) | | (49,764) |
| Distributions to non-controlling interests | | | | | | | (266) | (266) |
| **Balance at December 31, 2012** | $ 293 | $ | $ 609,002 | $ | $ (535,851) | $ 73,444 | $ 80,009 | $ 153,453 |
| Issuance of class A common stock | 258 | | 633,549 | | | 633,807 | | 633,807 |
| Adjustment to par value for reverse stock split and charter amendment | (263) | | 263 | | | | | |
| Restricted class A common stock earned | | 7 | 1,057 | | | 1,064 | | 1,064 |
| Issuance of convertible notes | | | 8,826 | | | 8,826 | | 8,826 |
| Deferred directors compensation | | | 289 | | | 289 | | 289 |
| Other comprehensive income | | | | 798 | | 798 | | 798 |
| Consolidation of subsidiaries | | | | | 5,727 | 5,727 | 6,235 | 11,962 |
| Net income | | | | | 15,032 | 15,032 | 10,392 | 25,424 |
| Dividends declared on common stock | | | | | | | | |